SUPREME COURT, U.S.

No.

In the

Supreme Court of the United States

OCTOBER TERM, 1971

KEARNEY & TRECKER CORPORATION,

Petitioner,

vs.

GIDDINGS & LEWIS, INC.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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INDEX

	PAGE
Opinions Below	1
Jurisdiction	2
Questions Presented	2
Statutes Involved	3
Statement of the Case	4
Reasons for Granting the Writ	10
1. The Decision Below Conflicts In Principle With The Decisions Of Other Courts Of Appeals As To The Requirements For A Finding Of A Violation Of Section 2 Of The Sherman Act Under The Doctrine Of Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.	10
2. The Court Below Has Decided Important Questions Of Federal Law Which Should Be Settled By This Court.	14
3. The Court Below Has So Far Departed From The Accepted And Usual Course Of Judicial Proceedings As To Call For An Exercise Of This Court's Supervisory Powers.	19
Conclusion	22
Appendix	
A. Decision of the District Court	1a
Judgment of the District Court	23a
B. Decision of the Court of Appeals	25a
C. Order Denying Petition for Rehearing	70a

PAGE

CITATIONS

CASES:

American Cyanamid Company v. F.T.C., 363 F. 2d 757 (6th Cir. 1966) 13, 16

Beckman Instruments, Inc. v. Chemtronics, Inc., 439 F.2d 1369 (5th Cir. 1970) 12

Beckman Instruments, Inc. v. Chemtronics, Inc., 328 F. Supp. 1132 (W.D. Texas 1971) 13

Byrd v. Blue Ridge Cooperative, 356 U.S. 525 (1958) 20

Cataphote Corp. v. DeSoto Chemical Castings, Inc., ... F.2d ....., 171 U.S.P.Q. 736 (9th Cir. 1971) 12

Collins v. Hoffman, 62 Wash. 278, 113 P. 625 (1911) 21

Hazel-Atlas Glass Company v. Hartford Empire Company, 322 U.S. 238 (1944) 9, 15

Keystone Driller Co. v. General Excavator Co., 290 U.S. 240 (1933) 8, 15

Precision Instrument Mfg. Co. v. Automatic Maintenance Machinery Co., 324 U.S. 806 (1945) 9, 15

SCM Corporation v. Radio Corporation of America, 318 F. Supp. 433 (S.D.N.Y. 1970) 13

United States v. American Bell Telephone Co., 128 U.S. 315 (1888) 16

United States v. Charles Pfizer & Co., et al. Trade Regulations Reports, Case 2066, page 52,729 (D.C.D.C. filed July 15, 1969) 16

Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., 382 U.S. 172 (1965) 7, 10, 11, 15, 16

PAGE

STATUTES:

15 U.S.C. Sec. 2 ..... 2, 3, 7

18 U.S.C. 207(a) 3, 18, 19

28 U.S.C. 1254(1) 2

28 U.S.C. 1338(a) 4

28 U.S.C. 2201 4

28 U.S.C. 2202 4

35 U.S.C. 102(b) 15

35 U.S.C. 285 6

35 U.S.C. 288 ..... 4, 6, 14, 16

MISCELLANEOUS:

Manual Of Patent Examining Procedure, Section 707.07(j). 7

37 C.F.R. Sec. 1.341, Rules of Practice in Patent Cases, Rule 341(g) 8

Cochran, "Historical Review of Fraud In Patent Procurement", 52 J. Pat. Off. Soc'y 71 (1970) .. 11

Day, "Relation of Patent Validity to Anti-Trust", 39 Antitrust Law Journal 801 (1969-70) 11

"Memorandum of Attorney General Regarding Conflict of Interest Provisions of Public Law 87-849", 28 Fed. Reg. 985 (Feb. 1, 1963) quoted at 18 U.S.C.A. Secs. 1 through 370, p. 278, 282, 285 18

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Petitioner, Kearney & Trecker Corporation, prays that this Court direct its writ of certiorari to the United States Court of Appeals for the Seventh Circuit to review the judgment entered on October 28, 1971 in Cause No. 18,354.

OPINIONS BELOW

The opinion of the United States District Court for the Eastern District of Wisconsin, entered by Judge Gordon, (App. 1a), holding certain claims of petitioner's U.S. patent Re.-Re. 25,737 valid and infringed, and dismissing respondent's claims for declaratory judgment of patent invalidity and for violation of Sections 1 and 2 of the Sher-

man Act and Section 3 of the Clayton Act, is reported at 306 F.Supp. 189.

The opinion of the Court of Appeals for the Seventh Circuit, with Judge Pell dissenting, (App. 25a) holding the patent claims unenforceable, awarding attorney fees to respondent, and finding petitioner to have violated Section 2 of the Sherman Act, is not yet officially reported, but is unofficially reported at 71 U.S.P.Q. 650.

JURISDICTION

The judgment sought to be reviewed was dated and entered October 28, 1971. A timely petition for rehearing was denied by order dated and entered December 1, 1971 (App. 70a), Judge Pell dissenting. Jurisdiction of this Court is invoked under 28 U.S.C. Sec. 1254(1).

QUESTIONS PRESENTED

1. Does improper conduct which plays no material part in obtaining or procuring a patent give a basis for a cause of action for violation of Section 2 of the Sherman Act when the patent is sought to be enforced?

2. Are original patent claims for an invention which satisfies all conditions for patentability rendered unenforceable, as a matter of law, against an infringer of such claims, because a former Patent Office Examiner, who had acted upon the original patent claims, subsequently advised and assisted the patent owner in seeking additional claims by reissue of the patent?

3. When a Court of Appeals determines that evidence was improperly excluded by the Trial Court, should the Court of Appeals consider such evidence, draw factual inferences therefrom, and make a determination of liability

based thereon, or should the cause be remanded to the Trial Court to consider such evidence and to afford the party against whom such evidence was offered an opportunity to explain or rebut it?

STATUTES INVOLVED

26 Stat. 209, United States Code, Title 15:

Sec. 2.

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor. . . .

76 Stat. 1123, United States Code, Title 18:

Sec. 207.

(a) Whoever, having been an officer or employee of the executive branch of the United States Government, of any independent agency of the United States, or of the District of Columbia, including a special Government employee, after his employment has ceased, knowingly acts as agent or attorney for anyone other than the United States in connection with any judicial or other proceeding, application, request for a ruling or other determination, contract, claim, controversy, charge, accusation, arrest, or other particular matter involving a specific party or parties in which the United States is a party or has a direct and substantial interest and in which he participated personally and substantially as an officer or employee, through decision, approval, disapproval, recommendation, the rendering of advice, investigation, or otherwise, while so employed, or. . . .

Shall be fined not more than $10,000 or imprisoned for not more than two years, or both: . . .

66 Stat. 813, United States Code, Title 35:

Sec. 288.

Whenever, without deceptive intention, a claim of a patent is invalid, an action may be maintained for the infringement of a claim of the patent which may be valid. The patentee shall recover no costs unless a disclaimer of the invalid claim has been entered at the Patent Office before the commencement of the suit.

STATEMENT OF THE CASE

This suit began as a patent case by the consolidation of an action brought by petitioner in the United States District Court for the Eastern District of Wisconsin pursuant to 28 U.S.C. Sec. 1338(a), for infringement of its Brainard et al patent Re.Re. 25,737, and an earlier action brought by respondent, Giddings & Lewis, Inc., in the United States District Court for the Eastern District of Michigan pursuant to 28 U.S.C. Sec's. 1338(a), 2201 and 2202, and transferred to the Eastern District of Wisconsin, seeking a declaratory judgment that such patent was invalid, unenforceable against respondent, and not infringed.

The invention of the Brainard et al patent is directed to the art of machine tools and relates to a mechanical tool changer of the type in which the next tool to be used is selected from a storage of tools and is bodily removed from the storage for placement in an operating station, such as a spindle, and wherein the tool previously used is returned to the storage, all automatically. (App. 2a) Specifically, in the invention of the Brainard et al patent, while a previous tool is in the spindle of the machine, the next desired tool is pre-selected and placed at a position ready to be changed with the tool in the spindle. When the time comes to make the tool change, a two-handed tool change arm takes the tool from the spindle and exchanges it for the pre-selected tool. (App. 28a).

The Brainard et al patent originally issued on September 4, 1962 as U.S. patent No. 3,052,011 and contained claims 1 through 35. The patent was reissued on May 26, 1964 as patent Re. 25,583 and claims 36 through 47 were thereby added to the patent. The patent was again reissued on March 2, 1965, as patent Re.Re. 25,737 with additional claims 48 through 60.

In the trial to the District Court, the issue of respondent's infringement was limited to claims 15, 19 and 20 which were among the claims in the original patent and which were brought forward without significant change into the reissued patents. (App. 26a). The Court of Appeals accepted the District Court's holding that claims 15, 19 and 20 were valid when the original Brainard patent issued (App. 44a), did not disturb the District Court finding of infringement with respect to one accused machine, and specifically found that the finding of infringement by a second machine was supported (App. 31a-33a). In view of these holdings, issues of a scientific or technical nature concerning the invention, the prior art, or the respondent's infringing machines need not be considered in dealing with the questions presented by this petition.

More than two years after the commencement of the original actions, respondent amended its pleadings to assert claims that petitioner had violated Sections 1 and 2 of the Sherman Act and Section 3 of the Clayton Act. (R. 22-24). Although many-pronged, the allegations were directed to two main categories: unclean hands and inequitable conduct in the procurement of the Brainard et al patent Re.Re. 25,737, and misuse by petitioner in the exploitation and licensing of the patent. The first category included specific allegations that petitioner sought discriminating and favored treatment before the Patent Office, attempted to mis-

lead the Patent Office with respect to prior art in the prosecution of the patent, utilizing the services of T. Emmert. Beall, a retired Patent Office Examiner who had passed on the original Brainard et al patent, to act as its agent or attorney and to aid and assist petitioner in the preparation and prosecution of the reissue patents, and exerting or attempting to exert undue influence on Patent Office Examiner Richard Eanes in the prosecution of the second reissue patent through the intervention of Beall (R. 18-20). The second category included specific allegations of illegal tie-in sales and tying agreements, charging excessive royalties, and acquiring the Morgan patent No. 2,901,927 from International Business Machines Corporation with the purpose and intent of monopolizing and restraining interstate commerce (R.20-21).

The trial court found for the petitioner on each of the foregoing charges (App. 10a-22a), dismissed the respondent's counterclaims, and entered an order adjudging claims 15, 19 and 20 to be valid and infringed, enjoining respondent from infringing, and granting an accounting to petitioner to determine its damages for infringement (App. 23a-24a). While the court below alluded to certain of respondent's allegations in reversing the judgment of the trial court (App. 62a), it predicated its decision basically on the effect of the petitioner's utilization of the services of Beall, the retired Patent Office Examiner. The court below viewed Beall's conduct to be "indefensible" (App. 52a) and based thereon, found that: claims 36 through 60 added by reissue were invalid and that original claims 15, 19 and 20 were therefore unenforceable as a matter of law under 35 U.S.C. Sec. 288; that this was an exceptional case justifying the award of attorneys' fees (35 U.S.C. Sec. 285); and that petitioner had violated Sec-

tion 2 of the Sherman Act under the doctrine of *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965).

Beall was employed by petitioner after he had retired from the Patent Office at age 65 (R. 890). Petitioner was not aware of Beall's retirement until it occurred and there were no overtures of employment prior to retirement (R. 858a37, 994). While employed by the Patent Office he had been involved with the prosecution of the original Brainard patent which, however, had ended prior to his retirement (DTX1; 192).

The parties stipulated that Beall advised petitioner about ways and means to secure additional patent protection for the subject matter disclosed in the original Brainard patent, aided and assisted petitioner in the preparation and prosecution of the first reissue application, and assisted in the preparation and prosecution of the second reissue patent (R. 121-122). The aid, advice and counseling involved evaluating the scope of the original Brainard patent, reviewing proposed claims and preparing claims for the first reissue application,[1] meeting with officials of petitioner to discuss the possible reissue of the Brainard patent, preparing a proposed amendment to the first reissue application, rendering an opinion on the effect of two new prior art references on the claims of the first reissue, and reviewing proposed claims and suggesting additional claims for the second reissue application (R. 122-25). There were also two contacts with Examiner Eanes who was examining the reissue applications. The first was a telephone conversation on March 25,

[1] Beall could properly have suggested such claims had they occurred to him while he was in the Patent Office. Manual of Patent Examining Procedure, Section 707.07(j).

1964. Eanes told Beall that the first reissue had been granted, with notice to petitioner having been mailed the day before (DTX 69; 696; DTX 2; 253). Discussion on the second reissue was only after the application was found to be in condition for allowance (DTX 3; 277). Thereafter, Beall took to Eanes for entry on amendment prepared by petitioner's attorneys which clarified two claims and added limitations to narrow six other claims (R. 124-5; DTX3; 278-83). In both instances the claims of the reissue applications had been found to be allowable before the discussions were had.

The trial court found that there was no impropriety with respect to the prosecution of the original Brainard patent (App. 11a-14a). The court below accepted this finding but indulged in an inference that contacts between Beall and petitioner during the prosecution of the original patent created an appearance of impropriety (App. 45a).

The trial court found that it was improper, as contrary to Patent Office policy,[2] for Beall to assist in the first reissue application but found that the nature and degree of the questionable conduct was not adequate to render the patent unenforceable in equity. The trial court concluded that there was no "clear and convincing evidence of unconscionable or morally reprehensible conduct which was material in the procurement of the patent" (App. 19a).

The majority of the Court of Appeals disagreed and instead equated the conduct to that in *Keystone Driller Co.* v. *General Excavator Co.*, 290 U.S. 240 (1933), which

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[2] Rule 341(g), Rules of Practice in Patent Cases, 37 C.F.R. Sec. 1.341.

involved purchasing the silence of a witness who could testify to an invalidating prior public use, and that in *Hazel-Atlas Glass Company* v. *Hartford Empire Company*, 322 U.S. 238 (1944), which involved a deliberately planned and carefully executed scheme to defraud both the Patent Office and the Circuit Court of Appeals (App. 52a-53a).

Petitioner took "extensive remedial action" to effectively abandon the claims added by reissue and insure that the conduct would not be repeated (App. 43a-44a). In addition, it followed the admonition of *Precision Instrument Mfg. Co.* v. *Automatic Maintenance Machinery Co.*, 324 U.S. 806 (1945) by bringing the matter of Beall's participation to the attention of the Patent Office (R. 126). However, because the court below was of the view that the original patent claims were unenforceable as a matter of law, the curative steps were irrelevant (App. 58a).

The Court of Appeals also questioned Beall's services in connection with the Morgan patent which was acquired by petitioner from International Business Machines Corporation under a requirement that petitioner grant licenses to all at a maximum royalty of 0.4% (PTX 225; 132, 135). The Morgan patent was reissued by petitioner after its acquisition; however, it was not a matter which was pending before Beall in the Patent Office and was not even in his division in the Patent Office.

Judge Pell in his dissenting opinion did not accept the inferences and findings of the majority contrary to those of the trial court, saying (App. 65a):

> "Condensing the majority opinion to its pivotal point, although admittedly not an easy task considering its breadth, it appears to me that it imposes punishment for misconduct not legally related to patent claims sought to be enforced."

REASONS FOR GRANTING THE WRIT

1. THE DECISION BELOW CONFLICTS IN PRINCIPLE WITH THE DECISIONS OF OTHER COURTS OF APPEALS AS TO THE REQUIREMENTS FOR A FINDING OF A VIOLATION OF SECTION 2 OF THE SHERMAN ACT UNDER THE DOCTRINE OF WALKER PROCESS EQUIPMENT, INC. v. FOOD MACHINERY & CHEMICAL CORP.

In the landmark decision of *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965) this Court announced:

> "We have concluded that the enforcement of a patent procured by fraud on the Patent Office may be violative of Sec. 2 of the Sherman Act provided the other elements necessary to a Sec. 2 case are present." 382 U.S. at 174.

This petition seeks a determination of the proper interplay of the patent law under which exclusionary rights are granted in exchange for the disclosure of meritorious inventions and the antitrust laws which proscribe illegal monopolies. Despite the care with which this court limited its holding in *Walker*,[3] it has become increasingly popular

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[3] As examples of the circumspection consider the language of Mr. Justice Clark writing for the Court:

> "It must be remembered that we deal only with a special class of patents, i.e., those procured by intentional fraud." 382 U.S. at 176.
>
> "Walker's counterclaim alleged that Food Machinery obtained the patent by knowingly and willfully misrepresenting facts to the Patent Office. Proof of this assertion would be sufficient to strip Food Machinery of its exemption from the antitrust laws." 382 U.S. at 177.

in patent infringement actions to indiscriminately allege fraud on the Patent Office and to seek affirmative relief under the Sherman Act.[4] "No question has caused more difficulty in the patent-antitrust field than the relationship of patent law and policy to the antitrust laws."[5]

The majority of the Court of Appeals in this case has taken the view that conduct, which it considered inequitable but which was not material to the granting of the patent, can afford a basis for a violation of the Sherman Act.

Other Courts of Appeals which have considered *Walker* claims of fraud on the Patent Office have uniformly interpreted that decision to mean that the patent must have been obtained by means of fraud, i.e. but for the fraud the patent would not have issued. Such a position is not only consistent with the language of *Walker* but also with its underlying rationale. For if a person suppresses competition in a relevant market by means of a patent which would not have issued but for fraud practiced on the Patent Office, then he should not be heard to say that such fraudulent patent insulates him from liability.

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[3] (Continued)
And consider also the concurring opinion of Mr. Justice Harlan, the entire purpose of which was "to allay possible misapprehension as to the possible reach of this decision." 382 U.S. at 179.

[4] For the period of 1960 through 1968, about forty reported decisions expressly discussed and decided the fraud issue, and thirty of these decisions came after the *Walker* case was decided. Cochran (now retired Solictor, U.S. Patent Office), "Historical Review of Fraud In Patent Procurement." 52 J. Pat. Off. Soc'y. 71 (1970).

[5] Day, "Relation of Patent Validity to Antitrust", 39 Antitrust Law Journal 801 (1969-70).

Thus, the Court of Appeals for the Ninth Circuit, in passing upon a claim of fraudulent misrepresentation to the Patent Office in *Cataphote Corp.* v. *DeSoto Chemical Coatings, Inc.*, ...F.2d ....., 171 U.S.P.Q. 736, 739 (9th Cir. 1971), stated:

> "Since in Cataphote I we adopted DeSoto's contention that the alkyd-styrene substitution was so minor that it introduced nothing that was patentable, DeSoto cannot now argue that but for the misrepresentation about the resin compound, the patent would not have been granted. In other words, DeSoto failed to prove that the alleged misrepresentation was 'material' to the patent. Having failed to prove materiality, DeSoto's Walker claim must fail. *Walker, supra*, at 177, 147 U.S.P.Q. at 407; *SCM Corporation* v. *Radio Corporation of America*, 318 F.Supp. 433, 472, 167 U.S.P.Q. 196, 225-226 (S.D. N.Y. 1970)."

Beckman Instruments, Inc. v. *Chemtronics, Inc.*, 439 F. 2d 1369, 1380 (5th Cir. 1970), reached the same conclusion:

> "24. The Court [in *Walker*] stated that the patentee must have *obtained* the patent through fraudulent means. Lower courts have interpreted this and other statements in the case to mean that misrepresentations must be material for the cause of action to exist. E.g., *Corning Glass Works* v. *Anchor Hocking Glass Corp.*, D.Del. 1966, 253 F.Supp. 461, 470."

The Fifth Circuit Court of Appeals remanded to the trial court to determine if the patent owner indulged in knowing, willful misrepresentation of a material fact.[6]

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[6] On remand the trial court has decided that the antitrust claimant had not shown that any alleged misleading statements were "essentially material" to the issuance

Judge McLean reached the same conclusion as to materiality in *SCM Corporation* v. *Radio Corporation of America*, 318 F.Supp. 433, 472-3 (S.D. N.Y. 1970).

In a related antitrust context the Sixth Circuit Court of Appeals, in *American Cyanamid Company* v. *F.T.C.*, 363 F.2d 757 (6th Cir. 1966), considered materiality to be a necessary element for an alleged violation of Section 5 of the Federal Trade Commission Act (15 U.S.C. Sec. 45), posing the ultimate questions as follows:

> "Finally, the ultimate questions are: Did Lidoff [the Patent Office Examiner] receive all the information that he requested from Pfizer? And was Lidoff misled and deceived by Pfizer and Cyanamid and did he grant the tetracycline patent as the result of such deception?" 363 F.2d at 778.

The court below was faced with the finding of the trial court that the petitioner's use of the services of Beall (the former Patent Office Examiner) was not material in obtaining the reissue patents. Specifically, the trial court found (App. 18a):

> ". . . The irregularity involved in Mr. Beall's participation did not, in my opinion, give the plaintiff significant benefits it would not have otherwise received."

This finding of the trial court was not reversed by the Court of Appeals (App. 62a):

> ". . . We have not disturbed any of the findings made by the district court and we have no doubt

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[c] (Continued)
of the patent, so that the claimant did not meet the materiality test required to establish *Walker Process* fraud. *Beckman Instruments, Inc.* v. *Chemtronics, Inc.*, 328 F. Supp. 1132, 1138 (W.D. Texas 1971).

> that if he had considered the reasoning of *Walker* applicable to plaintiff's employment of Beall, as we have held, he would also have found a violation of the Sherman Act."

In this the court overlooked the requirement that other courts have held essential, i.e. that there must be a causal connection between the improper conduct and the issuance of the patent, a connection which neither the trial court nor the court below could find to exist.

2. THE COURT BELOW HAS DECIDED IMPORTANT QUESTIONS OF FEDERAL LAW WHICH SHOULD BE SETTLED BY THIS COURT.

A.

The court below found that the valid original claims (claims 15, 19 and 20) of the Brainard reissue patent were unenforceable by application of 35 U.S.C. Section 288 (new with the 1952 revision of the Patent Code) which states in part:

> "Whenever, without deceptive intention, a claim of a patent is invalid, an action may be maintained for the infringement of a claim of the patent which may be valid."

As far as petitioner has been able to determine this is the first decision which has interpreted and applied that section to deny enforcement of patent claims, and accordingly is a case of first impression.

The court below set the stage for applying 35 U.S.C. Section 288 by first concluding that petitioner's conduct was inequitable and that it rendered invalid claims 36 through 60 added by reissue, relying on *Walker* (App.

52a-53a). The court noted that under cases prior to Walker (i.e., *Hazel-Atlas Glass Co.* v. *Hartford-Empire Co.*, 322 U.S. 238 (1944) and *Keystone Driller Co.* v. *General Excavator Co.*, 290 U.S. 240 (1933)) the claims added by reissue would be denied enforcement. The court below then went on to state that *Walker* characterized a patent procured by fraud as not merely unenforceable but invalid (App. 53a). The court failed to recognize that the patent invalidity in *Walker* resulted from the application of the patent statutes. Invalidity of the patent in *Walker* would have been an inevitable result of the patent owner swearing before the Patent Office that it neither knew nor believed that its invention had been in public use in the United States for more than one year prior to filing its patent application when, in fact, it was a party to prior use within such time. It was the prior use which invalidated the patent, not the failure to disclose the prior use to the Patent Office, i.e. the patent failed to meet a statutory condition for patentability (35 U.S.C. Section 102(b)).

The court below committed further error by concluding that *Walker* related to both fraud and other inequitable conduct and deciding that a violation of the concepts of conflict of interest was inequitable conduct and that it involved the same threat to the public interest as actual fraud practiced on the Patent Office (App. 53a). In so doing it lifted the term "inequitable conduct" in the *Walker* quotation (382 U.S. at 177) from *Precision Instrument Mfg. Co.* v. *Automatic Maintenance Machinery Co.*, 324 U.S. 806 (1945), and disregarded the explicit limited holding of *Walker*. Thus, by overlooking the fact that the *Walker* decision was specifically restricted to the special class of patents procured by intentional fraud and by equating inequitable conduct with actual fraud on the Patent Office, the

court below was able to reason that *Walker* permitted holding patents to be invalid for inequitable conduct which was not related to a condition for patentability.

The court below has, in effect, annulled and cancelled the reissue claims 36 through 60. This has been uniformly held to be beyond the power of a court in a private action. Only the government can cancel a patent, in part because it is a party to the patent contract. *United States* v. *American Bell Telephone Co.*, 128 U.S. 315, (1888). Even the Federal Trade Commission apparently did not believe it could do so in the tetracycline controversy (*American Cyanamid Co.* v. *FTC.*, 363 F.2d 757 (6th Cir. 1966)) and instead the government subsequently filed a suit to cancel the tetracycline patent, (*United States* v. *Charles Pfizer & Co., et al*, Trade Regulations Reports, Case 2066, page 52,729 (D.C. D.C. filed July 15, 1969)). As was made clear in *Walker*, the well established rule that only the government may sue to annul a patent was not overturned.

> "We have concluded, first, that Walker's action is not barred by the rule that only the United States may sue to cancel or annul a patent. . . . Walker counterclaimed under the Clayton Act, not the patent laws. While one of its elements is the fraudulent procurement of a patent, the action does not directly seek the patent's annulment." 382 U.S. at 175-176.

The decision of the court below that the claims added by reissue are not only unenforceable because of unclean hands but are also invalid is not merely an exercise in semantics. A first consequence of the decision below is to permit application of 35 U.S.C. Sec. 288, for without a finding of invalidity of some claims that provisions of the Patent Law

would be inapplicable. The second related consequence is that in applying 35 U.S.C. Sec. 288 the inequitable conduct is equated with "deceptive intention," even though the inequitable conduct was not such as to deceive as to patentability of claims or as to anything else. Thus, a single finding of inequitable conduct is held to both raise the question of the applicability of Sec. 288 and answer that question in the affirmative. A third consequence is that it nullifies the effect of the reissue statutes, enabling the court to brush aside the question of the separate status of claims carried over from the original patent from those added by the reissue.

And a most important consequence is that the patent owner can do absolutely nothing to rehabilitate his patent. Since the valid original claims were found to be unenforceable as a matter of *law*, the equitable doctrine of purge was not to be considered. Thus, the court below found it unnecessary and completely irrelevant to consider whether the extensive remedial action taken by petitioner effectively purged the consequences, if any, of the conduct considered inequitable. Surely such a result is against public policy by discouraging patent owners from "attempting to set their own houses in order" (App. 68a).

The decision has far reaching consequences not only to the present controversy but also as a precedent for application to future controversies. If the law is to be changed so that inequitable conduct which does not constitute fraud on the Patent Office and which is not related to a condition of patentability will result in invalidating patent claims in addition to rendering them unenforceable, it is submitted that it should be Congress which should make the decision.

B.

Another question of first impression decided by the court below related to the construction of 18 U.S.C. Sec. 207(a), which forbids a former employee of an independent agency of the United States from knowingly acting as "agent or attorney for anyone other than the United States" in connection with any matter in which he "participated personally and substantially" while so employed.

The court below held that Beall, an attorney, who had advised and assisted the plaintiff in preparation of the reissue applications following his retirement from the Patent Office, had violated the proscription of that statute. In so holding the court below did not give effect to the legislative history of Section 207(a). In a memorandum dated January 28, 1963, the Attorney General at the suggestion of a number of government agencies and departments analyzed the conflict of interest provisions contained in what was then a new act. "Memorandum of Attorney General Regarding Conflict of Interest Provisions of Public Law 87-849", 28 Fed. Reg. 985 (Feb. 1, 1963) quoted at 18 U.S.C.A. Secs. 1 through 370, p. 278, 282, 285. With respect to Sec. 207, the Attorney General stated:

> ". . . neither subsection [207(a) or 207(b)] precludes post employment activities which may be fairly characterized as no more than aiding or assisting another."

> "Subsection (a), as it first appeared in H.R. 8140, the bill which became Public Law 87-849, made it unlawful for a former officer or employee to act as agent or attorney for, or aid or assist, anyone in a matter in which he had participated. The House Judiciary Committee struck the underlined words, and the bill became law without them. It should be

noted also that the repealed provisions of 18 U.S.C. 283 made the distinction between one's acting as agent or attorney for another and his aiding or assisting another."

The activities of Beall are fairly characterized as no more than aiding and assisting petitioner's patent attorneys (R. 121-125) but the court below concluded that Beall was acting in his professional capacity as an "attorney". This conclusion is not only contrary to the intent and meaning of Section 207(a) as revealed by its history, but also places former governmental employees at a serious disadvantage in securing post government employment. An authoritative pronouncement on this point is needed for the benefit of all governmental employees.

3. THE COURT BELOW HAS SO FAR DEPARTED FROM THE ACCEPTED AND USUAL COURSE OF JUDICIAL PROCEEDINGS AS TO CALL FOR AN EXERCISE OF THIS COURT'S SUPERVISORY POWERS.

At the trial petitioner successfully objected to the introduction into evidence of a number of documents on the grounds that they constituted communications between lawyer and client and were therefore protected by the attorney-client privilege. Such documents were separately bound in a volume of the record on appeal labeled "Confidential" "Special Exhibit Volume, Defendant's Exhibits Offered But Not Admitted".

The court below found that the trial court had erred in excluding the documents. It did not, however, stop there and remand the case to the trial court. Instead it examined and used such documents to make critical findings with respect to:

a. The character of Beall's services for petitioner with respect to the Morgan patent (App. 42a).

b. Petitioner's alleged anti-competitive purpose in acquiring the Morgan patent (App. 54a), and

c. A conclusion that petitioner was guilty of a gross abuse of the reissue privilege (App. 54a).

All of these findings and conclusions were used as the basis or in support of the conclusion that petitioner was liable for attorneys' fees and had violated the antitrust laws.

It is submitted that the procedure adopted by the court below violates petitioners fundamental right to its day in court to respond to the excluded evidence. Once the trial court had ruled that the documents were inadmissible, there was no need for rebuttal evidence, and in fact any evidence to rebut or explain such documents would have required petitioner to waive the attorney-client privilege.

The unfairness in the procedure adopted by the court below was recognized by this Court in *Byrd* v. *Blue Ridge Cooperative*, 356 U.S. 525 (1958) which reviewed a decision ordering judgment for the defendant on an affirmative defense which the trial court had stricken. While the Court of Appeals was sustained in its holding that the affirmative defense was proper, this Court found error in awarding judgment for the defendant rather than directing a new trial, and concluded:

> "The petitioner was fully justified in that circumstance in not coming forward with proof of his own at that stage of the proceedings, for he had nothing to meet under the District Court's view of the statute. He thus cannot be penalized by the denial of his day in court to try the issue under the correct interpretation of the statute. Cf. *Fountain* v. *Filson*, 336 U.S. 681;

Weade v. *Dichmann, Wright & Pugh, Inc.*, 337 U.S. 801; *Globe Liquor Co.* v. *San Roman*, 332 U.S. 571; *Cone* v. *West Virginia Paper Co.*, 330 U.S. 212." 356 U.S. at 533.

Collins v. *Hoffman*, 62 Wash. 278, 113 P. 625, 626 (1911) is squarely in point. Respondent's objection to the admission of letters, offered by appellant to prove fraud, on the grounds of the attorney-client privilege, was sustained. On appeal this ruling was held erroneous, but the court concluded that only a new trial could be ordered.

> "These letters, however, are only here as identified offers of proof. They were not properly identified so as to admit them as evidence because of the court ruling them as privileged. We cannot, therefore, accept and review them as evidence, and are limited to passing upon their admissibility. *Neither could we foreclose respondent's right to meet them in any proper way.*" (emphasis added).

If the decision below is allowed to stand it will mean that a party who successfully objects to the introduction of material evidence has waived his right to rebut or explain such evidence if the appellate court determines that the evidence was improperly excluded. The excluded evidence was relied upon by the Court of Appeals to support an action in which petitioner, without having opportunity to meet the evidence, may be called upon to respond in damages, treble damages—two-thirds of which would be punitive. Surely such an unjust result should not be permitted. This case calls for the exercise by this Court of its supervisory power over the court below by reversing and remanding the case to the District Court.

CONCLUSION

Petitioner respectfully submits that its prayer for a writ of certiorari should be granted because:

A. There has been a determination of violation of Section 2 of the Sherman Act based upon an unwarranted extension of the doctrine of "deliberate fraud" pronounced in *Walker* and in a factual situation where conduct considered to be "inequitable" bore no causal relationship to the issuance of the patent, which determination conflicts in principal with decisions of other Courts of Appeals.

B. Important questions of first impression are presented and should be resolved.

C. Reversing the decision of a trial court and sustaining a cause of action for treble damages on the basis of evidence which a party has had no opportunity to rebut or explain, is such a departure from the accepted and usual course of judicial proceedings as to call for exercise of this Court's power of supervision.

Respectfully submitted,

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APPENDIX A

162 UNITED STATES DISTRICT COURT

(Caption Nos. 66-C-360 & 67-C-113)

OPINION

(Filed Nov 18, 1969)

Gordon, J.:

These are consolidated actions. A patent infringement on the part of Giddings & Lewis, Inc. is charged by Kearney & Trecker Corporation. The latter is the owner of Brainard et al patent Re.-Re. 25,737. Kearney & Trecker seeks injunctive relief and damages for the claimed infringement.

Giddings & Lewis asks for a declaratory judgment asserting that the aforesaid patent is invalid and not infringed; it also has advanced a number of affirmative defenses to bar the enforcement of the patent.

In a comprehensive pretrial report, the parties have stipulated to a large number (135) of uncontested factual matters. They have agreed that for purposes of this consolidated trial Kearney & Trecker Corporation is to be denominated the "plaintiff", and Giddings & Lewis referred to as the "defendant".

The patent in suit (Re.-Re. 25,737) is the second reissue of an earlier patent (3,052,011) which was issued on September 4, 1962. The first reissue (Re. 25,583) was on May 26, 1964, and the re-issue (Re.-Re. 25,737) was on March 2, 1965.

163 In the present action, the plaintiff relies on claims 15, 19 and 20 of its patent. The defendant has manufactured certain machines which the plaintiff contends infringe its patent. The following three machines made by the defendant are said to infringe the patent with particular reference to claim 15: NumeriCenter 10V,

15V, and 15V floor type. The plaintiff also charges that the defendant's machine NumeriCenter 2511 infringes with reference to claims 19 and 20.

I. VALIDITY

Without reference to the allegations as to fraud in the procurement of the patent (which will be discussed later in this opinion), the court will first consider the question of the validity of the patent in suit.

The Brainard patent relates to a machine tool with an automatic tool changing device, the function of which is to select a given tool from a storage bin, remove it from said bin, transfer it to the machine tool's operating station, remove the previously used tool from the operating station and deliver it to the storage bin. This entire operation is performed automatically, utilizing directions contained on a prepared tape. The directions contained on the tape are executed through an electronic control system and without the intervention of a machine operator.

The plaintiff asserts that there is a major contribution to the machine tool art that is contained in the patent in suit in that it utilizes a two-handed tool changer. Under this technique, the device delivers one tool to the spindle, which presents it to the operating station, while simultaneously restoring a removed tool to the place of storage. The use of the two-handed changing device is said to increase the speed of the operation, and the plaintiff urges that there is invention in such technique.

The defendant contends that the plaintiff's patent is invalid in light of the prior art, 35 U.S.C. Section 103, and that it lacks novelty under 35 U.S.C. Section 102. Applying the test found in Graham v. John Deere Co., 383 U.S. 1, 17 (1966), the defendant seeks a ruling that the plaintiff's patent wants validity by reason of obviousness.

In Cloud v. Standard Packaging Corp., 376 F.2d 384 (7th Cir. 1967), the court discussed the analytical steps which must be taken to determine the question of validity under Section 103. In resolving the question of obviousness, the court is to examine the scope and content of the prior art, the differences between the prior art and the claims in issue, and, finally, the level of ordinary skill in the pertinent art. Some recent decisions which have examined this test are Skil Corporation v. Cutler-Hammer, Inc., 412 F.2d 821 (7th Cir. 1969); Appleton Electric Co. v. Efengee Electrical Supply Co., 412 F.2d 579 (7th Cir. 1969); Paper Converting Machine Co. v. FMC Corporation, 409 F.2d 344 (7th Cir. 1969); Leach v. Rockwood & Co., 404 F.2d 652 (7th Cir. 1968).

The principal prior art which was considered by the patent office before its allowance of the original Brainard patent is the Morgan patent, No. 2,901,927. While the Morgan patent provided for automatic tool changing, I believe that there are significant distinctions between the Morgan disclosure and claims 15, 19 and 20 of the Brainard patent. For example, contrary to claim 19 of the Brainard patent, the Morgan patent did not have "a tool change arm rotatably carried by said frame and operable when rotated to replace a tool in said tool securing means with the selected tool from said storage means." Distinctions between Morgan and Brainard 165 were recognized by both the plaintiff's expert, Dr. Harrington, and the defendant's expert, Dr. Bollinger.

Although the patent office had before it the Morgan patent, the defendant urges that it failed to consider all the relevant prior art. Paragraph 107 of the revised pretrial report recites a number of prior art references asserted by the defendant. Particular reliance is made upon Conradson (2,323,010), Hautau (2,919,010), and the Martonair Machinery article. Failure of the patent office to have considered such prior art is stressed by the defendant to support its contention that the statutory presumption of the validity of a patent is inapplicable.

The statutory presumption of validity under 35 U.S.C. Section 282 "is only overcome by clear and cogent evidence of invalidity." Ortman v. Maass, 391 F.2d 677, 681 (7th Cir. 1968). In the recent case of Deep Welding, Inc. v. Sciaky Bros., Inc., (7th Cir. August 13, 1969), Judge Kerner pointed out that

> ". . . The presumption of validity is largely, if not wholly, dissipated when pertinent prior art is shown not to have been considered during the processing of the patent application."

The Conradson patent discloses a lathe with a tool carrier from which an operator can visually select and manually withdraw for use and manually return various tools. The Conradson structure shows no "selection means" as called for in claims 19 and 20 and in my opinion differs from the novelty found in the Brainard patent under claims 15, 19 and 20.

The Hautau patent relates to a machine tool which has a "tool securing and operating means". The Hautau patent shows a device in which arms pivot about a common center, exchanging work pieces sequentially. It does not, however, provide selection means for tools.

It is my conclusion that the disclosure in the Hautau 166 invention is not identical with claims 15, 19 and 20 of Brainard.

In the Martonair Machinery article, there is disclosure of a lathe having means to alternate between two tools; one slides into working position on one side and is removed on the other side. The Martonair device does not have "a control system operably connected", nor does it provide "a plurality of tools removably carried by said tool storage magazine". In my opinion, the alternating two-tool structure of Martonair did not anticipate Brainard, nor did the patent office's failure to consider it impinge on the presumption of the validity of Brainard.

I find that the Brainard invention meeets the novelty test of Section 102, as well as the nonobviousness test of Section 103. The references relied upon by the defendant do not anticipate the patent under Section 102, nor do they negate patentability under Section 103.

With regard to the "ordinary skill in the art", the defendant urges that the Brainard patent is invalid, notwithstanding any novelty it may possess, because the novel departures do not meet the nonobviousness test with respect to the body of prior art as a whole. The record in this case persuades me that the combinations of claims 15, 19 and 20 would not have been obvious to one of ordinary skill in the art. Mr. Sedgwick testified that the control system was an obvious control expedient. From this, the defendant urges that element f of claim 15 was obvious to one of ordinary skill in the art. Mr. Sedgwick also opined that there would be no great difficulty in adapting the Hautau transfer arm for tool transfers.

I was not impressed with the correctness of Mr. Sedgwisk's views and do not regard them as persuasive proof that the combination of claims 15, 19 and 20 167 were obviousto a person of ordinary skill in the art. Like Ms. Sedgwick, Mr. Hautau is an inventor. Notwithstanding the latter's extensive experience in the design of automatic machines, the prior art did not make obvious to Mr. Hautau the structure of the claims in suit.

In 1956, Ford Motor Company solicited builders of machine tools to submit proposals on a numerically controlled machine tool with automatic tool changing. It would appear that the combination of claims 15, 19 and 20 as found in the Brainard patent were not sufficiently obvious to evoke an effective response to the Ford invitation to the trade. Thus, although there was a need and a demand for an efficient automatic tool changing machine tool, and although the industry was familiar with the Morgan machine, it was not until the Brainard

patent that the combination of elements contained therein was put together and recognized by the trade.

The commercial success of the Milwaukee-Matic II machine tool has been stipulated to by the parties; this tends to support the view that this patent achieved the result of commercial success in part by reason of its novelty. However, the defendant points out that under Graham v. John Deere Co., 383 U.S. 1, 17 (1966), the question of commercial success is a "secondary consideration". Defendant also urges that commercial success, in order to have legal consequence, must be shown to have been attributable to the claimed invention and not to such extraneous factors as extensive advertising Schreyer v. Chicago Motocoil Corp., 118 F. 2d 852, 857 (7th Cir. 1944).

> It is my conclusion that the commercial success of the Milwaukee-Matic machine is fairly attributable 168 in part to the claims in suit. Although it is indeed a secondary consideration, it tends to support my conclusion as to the nonobviousness of the Brainard patent.

The defendant contends that the claims in suit are indefinite, and thus do not satisfy the requirements of 35 U.S.C. Sec. 112. Although the defendant's expert, Dr. Bolfinger, found several aspects of vagueness in the several claims, I find that the defense of vagueness is not established. See Pursche v. Atlas Scraper & Engineering Co., 300 F. 2d 467, 476 (9th Cir. 1962).

II. INFRINGEMENT

The plaintiff argues that the defendant's machines infringe claims 15, 19 and 20 of its patent. Specifically, it is urged that claim 15 is infringed by the 15V machine of the defendant, and claims 19 and 20 are infringed by its 25H machine. The burden of proving infringement is on the plaintiff. Becker v. Webcor, Inc., 289 F. 2d 357, 360 (7th Cir. 1961).

The defendant contends that in order to obtain its patent, the plaintiff narrowly defined its invention and

should not now be permitted to expand such definition in order to establish infringement. A comparable point was made in Fife Mfg. Co. v. Stanford Engineering Co., 299 F. 2d 223, 226 (7th Cir. 1962), where the court said:

> "It is well settled that a patent owner may not apply a narrow construction to his claim to avoid the prior art and then apply a broad construction to include an accused device."

The question of a "narrow interpretation" of the patent claims was considered in International Banding Machine Co. v. American Bander Co., Inc., 9 F. 2d 606, 608 (2d Cir. 1925), where the court said:

> "It is the duty of the court to read a claim in the light of the entire disclosure of the patent as a whole. It will interpret an expression positively recited in the claim as satisfied by any suitable instrumentality capable of performing the stated function successfully, unless, by so doing, violence to some other patent may be committed. It should never interpret a positively recited generic expression as limited to the precise instrumentality disclosed by the patent, except where such narrow interpretation is necessary to distinguish the claim from the prior art."

An invention is protected against infringement by the breadth of its claim language, rather than by the specific structure shown in the specifications. King-Seeley Thermos Co. v. Eastee Freez Industries, Inc., 357 F. 2d 875, 880 (7th Cir. 1966); Nordberg Manufacturing Co. v. Woolery Machine Co., 79 F. 2d 685, 692 (7th Cir. 1935). Thus, it is the claims which define the invention; nevertheless, a specification may be used to explain an ambiguity in the claims. Minnesota Mining and Manufacturing Co. v. Technical Tape Corp., 309 F. 2d 55 (7th Cir. 1962); Scherbatskoy v. U.S. Steel Corp., 287 F. 2d 552 (7th Cir. 1961).

In denying infringement, the defendant contends that it is tool coding which makes possible the interchange of the old and the new tools under the plaintiff's patent. Defendant points out that the accused machines use uncoded tools, which cannot be located unless they have been placed in a correct station. I do not believe this distinction is controlling; I believe that claims 15, 19 and 20 of the patent in suit are broad enough to include other forms of sensing tool location than the use of coded tools. The language of the claims does not restrict the Brainard invention to functioning with coded tools. Thus, I believe that the defendants err in asserting that "tool coding and tool coding alone" makes it work.

The court must further determine whether claim 15 170 of the patent in suit is infringed by the 15V machine of the defendant. Although the vertical spindle machine is capable of single matrix operation, the record establishes that the machine is intended to be operated by taking tools alternately from both matrices. The fact that the defendant's model 15V may be operated in a noninfringing manner does not resolve the issue of infringement if it can be found that the device also operates in an infringing manner. Wright Co. v. Herring-Curtiss Co., 211 F. 654, 655 (2d Cir. 1914).

The 15V machine has two matrices which are rotated so as to bring pre-selected tools into the tool change position. Just as in the patent in suit, the two matrices play a similar role of housing the tools that are awaiting use and rotating them into position. The plaintiff's expert, Dr. Harrington, opined that the dual matrices function as a single magazine, and that in this regard, claim 15 applies to the 15V machine.

The defendant urges that the model 15V does not have a control system as set forth in claim 15. The defendant's expert focused his testimony upon that portion of claim 15 which provides: "while the machine tool is operating with a different tool at the operating station". The defendant maintains that the plaintiff's in-

terpretation unduly broadens the provisions of claim 15. I believe that the narrow reading of claim 15, as urged by the defendant, is unwarranted and that the 15V machine cannot thereby be relieved of the charge of infringement. I find that the defendant's model 15V infringes the plaintiff's patent.

171 The plaintiff also contends that claim 19 of the patent in suit is infringed by the defendant's model 25H. I find that the plaintiff has met its burden in establishing this infringement.

The defendant's principal contention in this regard relates to the operation of the tool change arm. In the defendant's model 25H, the spindle moves to engage the tool and then withdraws, with the spindle coming to the arm, rather than the arm going to the spindle. While both the Milwaukee-Matic II and the accused machine utilize a tool change arm to change tools, the defendant urges that there is a significant variance since in the latter machine the spindle moves with the tool toward the tool grip, which grasps the tool and then the spindle withdraws; in the plaintiff's machine, no spindle motion is required for that part of the transfer from the matrix to the spindle. I reject the defendant's distinction. I also conclude that the defendant's model 25H has a "selection means operative to select a desired tool in said tool storage means" for placement in the bin as stated in claim 19.

I am not persuaded that there is any estoppel adverse to the plaintiff to be found in the first reissue file wrapper.

The plaintiff also contends that claim 20 is infringed by the 25H machine. The court must determine whether there is a meaningful distinction because the tool ready station in the defendant's 25H machine is located at the rear thereof in the magazine, rather than at the front. The words "tool change station" found in claim 20 refer to the station at which the tool is gripped

by the rotatable arm and transferred to the spindle. The function of the tool change arm remains the same whether it is located at the front or the rear.

In my opinion, claim 20 is infringed by defendant's model 25H.

172 III. THE DEFENSE OF UNCLEAN HANDS

Giddings & Lewis contends that the patent in suit is unenforceable by reason of the plaintiff's alleged wrongful conduct in its relationship to the U.S. patent office. The evidence on this subject was extensively presented at the trial, and the matter has been covered copiously in the submissions of counsel after trial. It is apparent that the defendant relies heavily on the defense of unenforceability based on the plaintiff's alleged misconduct vis a vis the patent office. I have concluded that such misconduct as is chargeable to the plaintiff does not warrant the court's rendering the patent in suit unenforceable. In reaching such conclusion, I have considered exhibits 561 and 561A which were filed with the court after the end of the trial. I will now discuss the factual and legal considerations which have resulted in the aforesaid conclusion.

The defendant claims that the Kearney & Trecker patent application received favored treatment at the hands of the patent office examiners by reason of "hospitality" which was afforded to the patent office examiners by officials of Kearney & Trecker. While the patent application was pending, Mr. Beall and Mr. Eanes examiners of the patent office, visited the plaintiff's plant for two days. On one evening during their visit, the two patent office representatives attended a birthday party for Mr. Trecker at his home. The next evening, they had dinner with the plaintiff's patent attorneys, Messrs. Wutschel and Hajewski. Mr. Eanes later invited Mr. Trecker to dine at the Eanes' home in Washington, D.C. and Mr. Trecker accepted that invitation. Mr. Eanes also entertained Mr. Wutschel and Mr. Hajewski at his home.

173 Mr. Wutschel attended a retirement party given for Mr. Beall on June 24, 1962.

In my opinion, the existence of these personal relationships does not justify the defendant's conclusion that such associations tainted the patent or resulted in discriminatory treatment in favor of the plaintiff.

The court notes that Mr. Beall and Mr. Eanes had also inspected the Giddings & Lewis plant at Ford du Lac just before coming to Milwaukee to visit the plaintiff's facilities. The two examiners, Mr. Beall and Mr. Eanes, were the dinner guests of Mr. Kraut and other officers of Giddings & Lewis. It was stipulated by counsel in the pretrial report that

> "During the course of dinner, mention was made of fishing trips to Canada which Giddings & Lewis had in the past arranged for its executives and guests. A tentative invitation was made to the examiners, Beall and Eanes, for them to join Giddings & Lewis people on a fishing trip to Canada during the summer of 1961."

From the foregoing, it is apparent that the defendant is in no position to criticize the plaintiff for rendering hospitality to the two visiting examiners. In any event, it does not appear that this social activity was illegal or that it resulted in favored treatment to the plaintiff in connection with its application before the patent office. The defendant has not met its burden of establishing that this conduct was inequitable, fraudulent, or tainted the plaintiff with unclean hands.

In further support of its contention that Kearney & Trecker subverted personnel of the patent office, the defendant points to a number of interviews between Kearney & Trecker representatives and patent office examiners Defendant argues that there were an excessive number of such personal interviews, and that several of them were not made of record in the official files. The defendant points to patent office rule 133(b)
174 requires

"In every instance where reconsideration is requested in view of an interview with an examiner, a complete written statement of the reasons presented at the interview as warranting favorable action must be filed by the applicant."

Mr. Hajewski interviewed Mr. Eanes at the patent office during the week of January 15, 1961 in connection with the Brainard tool changer application and discussed with Mr. Eanes the subject of initiating an interference proceeding in regard to the Morgan patent which was then owned by IBM. However, no record of this interview nor its subject matter appears in the Brainard file wrapper. Similarly, no record was made of interviews held on May 31 and June 1, 1961 in which Mr. Wutschel and Mr. Hajewski again interviewed Mr. Eanes. The same two representatives of the plaintiff also conducted interviews on September 27, 28 and 29, 1961 with Mr. Eanes and Mr. Beall at the patent office and again discussed the matter of possible interference with the Morgan patent in connection with the Brainard application. Mr. Eanes was also interviewed on January 22, 1962. A number of documents were introduced into evidence which showed that the plaintiff's attorneys kept memoranda concerning these interviews in their own patent department files.

The defendant makes a number of charges concerning these interviews which, in my opinion, are not justified by the record. For example, the contention that the number of such interviews was "excessive" is not supported by any reference to any rule of the patent office or by any other legal authority. The record simply does not disclose any inherent irregularity in the number of such interviews.

Similarly, the failure to record such interviews is not in itself a violation of patent office rule 133(b); that rule applies when reconsideration is requested, and 175 in such case a written statement of the reasons presented must be filed. The interview during the

week of January 15, 1961 related to the possible interference which was never declared; it did not constitute a request for reconsideration. The interviews on May 31 and June 1, 1961, also concerned a possible interference and changes to be made in the drawings and in the written description; such interviews may not be deemed requests for reconsideration.

The interviews on September 27, 28 and 29, 1961 concerned the same possible interference, as well as the discussion of proposed new application claims which were added by an amendment subsequently filed, and the amendment did in fact discuss the reasons why such claims were allowable. With reference to the interview on January 22, 1962, an amendment was filed on March 30, 1962 following such interview, which set forth the reasons why certain claims rejected by the examiner should be reconsidered and the reasons why certain new claims should be allowed.

The record shows that when an interview was held relating to the submission of a new claim, it was filed in the file wrapper with the reasons advanced for its allowability. Thus, new claims 50 to 61 were added by an amendment of December 16, 1959; new claims 62 to 72 were added by an amendment of October 16, 1961; and, new claims 73 to 80 were added by an amendment of March 30, 1962. In each instance, the reasons for allowability were incorporated in the amendment.

Giddings & Lewis also charges that during personal interviews with Mr. Eanes, the plaintiff improperly succeeded in minimizing the impact of the Morgan patent as a reference against the Brainard patent. In its brief, the defendant charges that Mr. Eanes "was encour-
176 aged to withhold action under assurances that plaintiff had a basis for proving invention dates prior to Morgan . . ." These charges are not, in my opinon, well founded. The Morgan patent was consistently cited and applied by the examiner as a prior art reference from a time previous to any of the interviews to which

the defendant alludes; the shadow of the Morgan patent was present throughout the entire prosecution of the application for the original Brainard patent.

It is charged that the plaintiff engaged in an irregularity with the patent office in obtaining from it "in the guise of resolving the interference issue" an advisory opinion that the Morgan patent was infringed by the Milwaukee-Matic II machine. The defendant goes on to assert that utilizing this advisory opinion, Kearney & Trecker engaged in negotiations with IBM to acquire the Morgan patent without revealing the patent office position. While it is true that Kearney & Trecker considered means of having the Morgan patent removed as a reference, it does not follow that consideration of such possibility was a tainted transaction or resulted in discriminatory treatment in favor of Kearney & Trecker. In addition, the commencement of the negotiations with IBM relative to the Morgan patent antedated the patent office interviews in question.

Preferential treatment is also attributed to the plaintiff "in obtaining Examiner Eanes' consent to a misleading inclusion of Hautau patent number 2,711,817 . . . as a reference of record after prosecution was closed . . ."

A memorandum reflecting an interview on this matter is before the court as defendant's exhibit number 63. It demonstrates that the patent office had considered the Hautau patent and, thus, the subsequent reference to it may not properly be denominated as a "mis-177 leading inclusion".

The court must examine the impact of the plaintiff's disavowal of the reissue claims. The defendant has made an accusation of unclean hands in connection with the plaintiff's conduct in processing the first and second reissue applications. There is a charge of irregularity regarding the hiring of Mr. Beall after his retirement from the patent office and the assignments given him by Kearney & Trecker. The plaintiff has

given up claims 36 to 60 and takes the position that the earlier claims, which were a part of the original Brainard patent, were allowed by the patent office before Mr. Beall was employed by Kearney & Trecker. The court must consider the defendant's charges in regard to the reissue claims, but first it should be determined whether, under the law, that matter is moot by reason of the plaintiff's express waiver of any rights under such reissue claims.

The defendant points to the case of Staude v. Bendix Products Corp., 26 F. Supp. 901 (N.D. Ind. 1939); that case suggests that where a reissue is tainted with fraud "a claim even though brought forward from the original patent goes out with the reissue." The plaintiff relies on a number of other cases which reach an opposite conclusion and permit the claims of the original patent to be enforced even though there is unenforceability in connection with the reissue claims. For example, in Cleveland Trust Co. v. Thomas, 1 F. Supp. 917, 920 (D. Mass. 1932), the court said:

> "It is settled law that the invalidity of a new claim in a reissue does not impair the validity of original claims repeated in the reissue patent."

Similarly, in Foxboro Co. v. Taylor Instrument Companies, 157 F. 2d 226 (2d Cir. 1946), Judge Learned Hand stated that

> ". . . the surrender of the original patent, resulting from the acceptance of the reissue, did not invalidate any claims which he carried over into the reissue."

In Budd Wheel Co. v. General Motors Corp., 16 F. Supp. 115, 116 (D. Del. 1936), the court said that delay in applying for the reissue patent invalidated only the new reissue claims and "has no effect whatever on the claims carried over into the reissue identical in form with those in the original patent". See also Well Surveys, Inc. v. McCullough Tool Co., 199 F. Supp. 374 387 (N.D. Okla. 1961); Rothholz v. Kreger, 89 F. Supp.

231, 233 (D. Conn. 1950); Schenk v. United Aircraft Corp., 43 F. Supp. 679 (D. Conn. 1941).

It is my conclusion that by reason of the plaintiff's formal abandonment of the reissue claims, any illegality in connection with the prosecution of the reissue applications does not, as a matter of law, make the original patent invalid. Nevertheless, since the issue of unclean hands is an equitable matter, I think it is appropriate that the court consider the irregularities charged in connection with the processing of the two reissue patents. Notwithstanding the effective and formal relinquishment of any rights under the reissue patents, proof of wrongdoing in the prosecution of those applications could have a bearing upon the court's application of the doctrine of unclean hands as it concerns the enforceability of the claims in suit.

Mr. Beall voluntarily retired from the patent office on June 22, 1962. A few days later, on June 25, 1962, Mr. Wutschel met with Mr. Beall and explored the possibility of retaining him as a patent consultant for Kearney & Trecker, but Mr. Beall stated that he was not interested. About two weeks later, Mr. Trecker talked with Mr. Wutschel and several other officials of Kearney & Trecker about employing Mr. Beall. On July 12, 1962, Mr. Trecker conferred with Mr. Beall at the latter's home concerning employment, and on August 1, 1962, Mr. Beall signed an agreement in which he contracted to perform consulting and advisory services for Kearney & Trecker about two days per week. Pursuant to this employment, Mr. Beal advised his employer on methods of securing additional patent protection for the subject matter already disclosed in the Brainard patent. He aided and assisted Kearney & Trecker in the preparation and prosecution of both the first and the second reissue applications.

More specifically, at the instance of the plaintiff, Mr. Beall prepared an evaluation of the scope of the original Brainard patent. He reviewed the proposed claims which

were to be incorporated in the reissue application and prepared additional claims. On July 31, 1963, he met with other Kearney & Trevor officials to discuss possible reissue of the Brainard patent. On December 14, 1963, Mr. Beall wrote to Mr. Wutschel as follows:

> "Incidentally, it would be helpful to me if my reports were temporarily removed from the file if and when the file is used at the Patent Office. Our friend might note the reports with great glee and attempt to inforth a possible evasion of the two year rule. You probably removed them anyway. Further I do not see that any real evasion has been done and do not contemplate filing for register as a patent attorney anyway."

It is clear that the words "our friend", appearing in the above quoted paragraph, refer to Mr. Eanes.

On March 30, Mr. Beall wrote to Mr. Wutschel as follows:

> "I called Eanes and he is sending the Brainard reissue to issue and will look forward to the citation of the new reference material. He seems to think that K & T should make a motion in some of the interferences to the effect that the count is unpatentable."

189 In connection with the second reissue application, Mr. Beall wrote a letter to Mr. Hajewski, dated October 20, 1964 offering "to take the amendment to him [Mr. Eanes] to find his reactions and pursue the matter to higher levels if adverse." Mr. Beall interviewed Mr. Eanes at the patent office on December 4 and December 7, 1964 with regard to the entry of an amendment and had lunch with him on both days. Mr. Eanes telephoned Mr. Beall on December 4, and Mr. Beall telephoned Mr. Eanes on December 9, 1964. Mr. Eanes informed Mr. Beall that the latter had neither a power of attorney in the case, nor the right to conduct prosecution before the patent office because he was not registered to do so. How-

ever, the amendment filed December 4, 1964 was finally entered by Mr. Eanes. Mr. Beall reported to Mr. Wutschel about his interviews with Mr. Eanes in a letter dated December 16, 1964.

While there was no illegality in hiring Mr. Beall on the termination of his employment in the patent office, it was improper for Mr. Beall to assist in the first reissue application less than two years after he left the patent office. In my opinion, the performance of this service was contrary to the patent office policy as reflected in patent office rule 341. The plaintiff argues that the nature of Mr. Beall's services was not dictated by its executive officers, but it is my conclusion that Kearney & Trecker is chargeable with Mr. Beall's actions. Insofar as they were done at the direction of the attorneys in the Kearney & Trecker patent department, they are properly ascribed to the plaintiff.

Notwithstanding Mr. Beall's participation in the prosecution of the reissue applications, I believe that the nature and degree of such questionable conduct is not adequate to render the patent unenforceable in equity. 181 The target of Mr. Beall's activity, Mr. Eanes, was mindful of Mr. Beall's employment by Kearney & Trecker immediately after the hiring. Mr. Eanes recognized that Mr. Beall had neither a power of attorney in the case, nor the right to conduct proceedings before the patent office because of his failure to register. The irregularity involved in Mr. Beall's participation did not, in my opinion, give the plaintiff significant benefits it would not have otherwise received. Mr. Beall's activities as an employee of Kearney & Trecker could have had no effect on the original patent or the claims in suit, and his demeanor was not such as to warrant the court's refusal to enforce the basic patent.

The defendant points to the subsequent discharge by Kearney & Trecker of both Mr. Beall and Mr. Wutschel and suggests that the plaintiff reaped the benefits of their improper conduct and then belatedly discharged

them. On the other hand, the discharges may be construed as demonstrating that the company did not condone the actions of Mr. Beall and Mr. Watschel. Although chargeable with the conduct in question, Kearney & Trecker took appropriate steps in making a disclosure to the patent office and in abandoning the patent claims which may have benefited from Mr. Beall's activities. See Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co., 324 U.S. 806, 818 (1945).

Before a court finds a patent unenforceable by reason of unclean hands, it should be satisfied that there is clear and convincing evidence of unconscionable or morally reprehensible conduct which was material in the procurement of the patent. Aerosol Research Co. v. Scovill Mfg. Co., 334 F. 2d 751, 756 (7th Cir. 1964); Armour & Co. v. Wilson & Co., 274 F. 2d 143, 148 (7th Cir. 1960); Waterman-Bic Pen Corp. v. W. A. Sheaffer Pen Co., 267 F. Supp. 849, 856 (D. Del. 1967); Tractor Supply Co. 182 v. Int'l Harvester Co., 155 USPQ 420, 433 (N.D. Ill. 1967). In my opinion, the extent of misconduct contemplated in the foregoing cases is not present in the case at bar.

An additional charge of misrepresentation is attributed to the plaintiff in connection with its representations to the patent office concerning prior art. In connection with the original patent application, the plaintiff filed an amendment on November 21, 1960 which stated:

> "The applicants here have proved an entirely new concept in an automatic machine tool. To the best of applicants' knowledge, it is the first practical milling machine in which the tools may be automatically changed in the spindle. It will be noted that the Morgan patent and any other prior art in this field all relate to drilling machines."

The defendant contends that the distinction between the Brainard claims as opposed to the Morgan claims asserted in the foregoing paragraph is "flagrantly mis-

leading" and is a "flagrant misstatement". In his testimony, Mr. Trecker agreed that this distinction was not meaningful. The distinction was never subsequently urged or repeated and, in my opinion, does not even qualify as an act of misrepresentation; I believe it to have been nothing more than an error, and an unimportant one at that.

The claim is also made by the defendant that the plaintiff made a misleading statement regarding the operation of the Morgan machine in an amendment filed March 30, 1962. The plaintiff is charged with making a spurious distinction in its assertion that in Morgan "the magazine is indexed for selecting the desired tool while it is remote from the machine". Even if the purported distinction is erroneous, the evidence does not persuade me that any claim distinction turned on this question, and, accordingly, I conclude that there was no meaningful misrepresentation involved.

183 The defendant also maintains that Kearney & Trecker sought to mislead Mr. Eanes with regard to the priority of invention as between the Morgan and Brainard patents, suggesting that there was an overlap between the two patents. The plaintiff considered submitting an affidavit which would show the priority of the Brainard patent, but no such affidavit was filed; on the contrary, Kearney & Trecker conceded the priority of the Morgan patent. Thus, the plaintiff acknowledged the priority of Morgan, and the patent office treated Morgan as prior art. Under such circumstances, it cannot be said that there were any misleading acts on the part of Kearney & Trecker.

IV. ANTI-TRUST VIOLATIONS

In addition to its claim that the patent was improperly procured, the defendant also urges that the plaintiff has unlawfully attempted to monopolize the relevant market in violation of the anti-trust laws.

The defendant points to the plaintiff's acquisition of the Morgan patent from IBM as an event which permitted the

plaintiff to engage in a monopoly. The Morgan patent was issued on September 1, 1959, following IBM's application for the patent in December, 1957. On March 21, 1960, Kearney & Trecker inquired about obtaining a license under the Morgan patent. Negotiations followed during which IBM charged Kearney & Trecker's Milwaukee-Matic machine with infringement of the Morgan patent. The negotiations terminated on April 22, 1963, when an agreement was reached for the sale of the Morgan patent to Kearney & Trecker. Giddings & Lewis had been licensed by IBM under the Morgan patent, and a share of the royalties paid by Giddings & Lewis after the plaintiff's acquisition of the Morgan patent were collected by Kearney & Trecker.

184 The sale by IBM of the Morgan patent to Kearney & Trecker carried with it an express provision requiring Kearney & Trecker to license all applicants, and further expressly provided that the rate charged in such licensing not exceed 4% of the selling price. IBM retained the right to grant licenses in the event Kearney & Trecker failed to comply with such provisions. There is no evidence in this record which would support a finding that Kearney & Trecker has ever refused to grant a license to anyone who ever applied, nor has it required as a condition to taking such a license that the licensee take a license under any other patent.

The defendant charges that there has been a tie-in policy on the part of the plaintiff in which the plaintiff charged a package royalty regardless of whether the licensee utilized the invention of the other patents. In my opinion, upon the record in this case, Kearney & Trecker may not be found to have practiced an improper tie-in policy. The conduct of the plaintiff in this case is quite unlike that described in McCullough Tool Co. v. Well Surveys, Inc., 343 F. 2d 381, 408 (10th Cir. 1965), where the court said:

> "It is true that a patentee unlawfully uses a patent monopoly when, for a fixed royalty, he refuses to grant a license under one or more of his patents unless a

license is taken under all of his patents. . . . However, in order to constitute a misuse, there must be an element of coercion, such as where there has been a request by a prospective licensee for a license under less than all of the patents and a refusal by the licensor to grant such a license."

Two decisions of the court of appeals for the seventh circuit which consider compulsory package licensing are Shea v. Blaw-Knox Co., 388 F.2d 761 (7th Cir. 1968) and Binks Mfg. Co. v. Ransburg Electro-Coating Corp., 281 F.2d 252, 259 (7th Cir. 1960), cert. den. 366 U.S. 211 (1961).

The defendant has not established its contention that the plaintiff has utilized its Morgan patent in such manner as to offend the anti-trust laws.

Another argument by the defendant in regard to anti-trust concerns the taking of covenants which prevented licensees from challenging the validity of the patent. Such covenants were considered valid in the past. Automatic Radio Mfg. Co. v. Hazeltine Research, Inc., 339 U.S. 827 (1950); Baker-Cammack Hosiery Mills, Inc. v. Davis Co., 181 F.2d 550, 569 (4th Cir. 1950). However, on June 16, 1969, the United States supreme court rendered its decision in Lear, Inc. v. Adkins, 395 U.S. 653 (1969). In Lear, the court concluded that licensees are no longer estopped as a matter of law from questioning the validity of the licensed patent. At the time such provisions were incorporated in the plaintiff's license agreements, there was no illegality, and in my opinion, it does not now supply a basis for retroactively finding an anti-trust violation. Cf. Armstrong v. Motorola, Inc., 374 F.2d 764, 774 (7th Cir. 1967).

A number of other contentions of the defendant relating to price restrictions and tie-ins on the part of the plaintiff have been considered and found to be without merit. I conclude that the plaintiff's acquisition of the Morgan patent and its licensing practices in connection therewith or in connection with its Brainard patent did not violate the anti-trust laws or constitute a misuse of his patents.

V. CONCLUSION

I find that the plaintiff's patent is valid and that the defendant has infringed claims 15, 19 and 20 thereof. Although there was questionable conduct chargeable to the plaintiff in relation to the prosecution of the two reissue patents, such actions were not of sufficient gravity to
186 warrant the court's refusal to enforce an otherwise valid patent. The patent is not rendered unenforceable by reason of any alleged violation of the anti-trust laws. Accordingly, Kearney & Trecker is entitled to injunctive relief as well as to damages for the infringement.

Giddings & Lewis has made an application for a declaratory judgment, which must be denied.

The foregoing opinion shall constitute the court's findings of fact and conclusions of law pursuant to rule 52, Federal Rules of Civil Procedure. Plaintiff's counsel is requested to submit an appropriate order for judgment, but such document shall not be submitted to the court for signature until two weeks after first have submitted the same to opposing counsel.

Dated at Milwaukee, Wisconsin, this 13 day of November, 1969.

/s/ Myron L. Gordon
U. S. District Judge

187

IN THE UNITED STATES DISTRICT COURT

(Caption—No. 66-C-360 & 67-C-113)

ORDER

(Filed December 11, 1969)

The above-entitled consolidated actions having come on for trial before the Court, and the Court having heard the testimony and considered the exhibits and briefs filed by the parties, including Defendant's Exhibits 561 and 561A which were filed with the Court following the end of the trial, and having heard the oral argument of counsel fol-

lowing briefing, and the Court having issued its opinion, dated November 13, 1969, which opinion constituted the Court's Findings of Fact and Conclusions of Law in accordance with Rule 52 of the Federal Rules of Civil Procedure, and the Court being fully advised in the premises:

It Is Hereby Ordered, Adjudged And Decreed:

1. Claims 15, 19 and 20 of the Brainard et al Patent No. Re.-Re. 25,737 are valid and enforceable, have been infringed by Defendant and Defendant is liable for such infringement.

188 2. Defendant and its subsidiaries and its and their directors, officers, agents, servants, employees and attorneys and all those in active concert with it or them are hereby enjoined from infringing said Claims 15, 19 and 20.

3. Plaintiff shall have an accounting to determine the damages from the infringement of Claim 15 of said patent by Defendant's Models 10V, 15V and 15VF and the infringement of Claims 19 and 20 of said patent by Defendant's Model 25H.

4. Defendant's amended first and second counterclaims, and Defendant's corresponding first and second causes of action in its Amended Complaint for Declaratory Judgment are hereby dismissed on their merits.

5. Plaintiff is awarded costs to be taxed by the Clerk.

Enter

/s/ Myron L. Gordon
United States District Judge

APPENDIX B

IN THE

UNITED STATES COURT OF APPEALS

FOR THE SEVENTH CIRCUIT.

SEPTEMBER TERM, 1970 — JANUARY SESSION, 1971

No. 18354

KEARNEY & TRECKER CORPORATION,
Plaintiff-Appellee,

v.

GIDDINGS & LEWIS, INC.,
Defendant-Appellant.

Appeal from the United States District Court for the Eastern District of Wisconsin.

No. 66-C-360
67-C-113

MYRON L. GORDON,
Judge

Decided October 28, 1971
As Amended December 1, 1971

Before SWYGERT, *Chief Judge*, PELL and STEVENS, *Circuit Judges.*

STEVENS, *Circuit Judge.* There are 60 separate claims in plaintiff's twice reissued Brainard patent.[1] Plaintiff originally contended that 29 of the claims were infringed by defendant's machines.[2] After discovery, plaintiff dra-

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[1] Brainard Re.-Re. 25,737, dated March 2, 1965, covering "Machine Tool With Mechanical Cutting Tool Changer."

[2] Defendant's vertical spindle machine was accused of infringing two claims of the original Brainard patent and 10 claims added by reissue; the horizontal spindle machine allegedly infringed 10 original claims and 17 claims added by reissue.

matically changed its position. Its charges of infringement were limited to the contention that defendant's vertical spindle machine (Model 15V) infringed claim 15 and that its horizontal spindle machine (Model 30H) infringed claims 19 and 20. Moreover, before the trial commenced, plaintiff advised its licensees, and presumably the trade generally, that it would not thereafter enforce claims 36 through 60 of its Brainard patent.[3]

This dramatic narrowing of the traditional issues of validity and infringement was the consequence of revelations during pretrial discovery. That discovery revealed that immediately after signing the notice of allowance of the original Brainard patent, Primary Examiner Beall retired from the Patent Office and became a paid consultant for plaintiff; his services related to the two reissues of Brainard, as well as the acquisition and reissue of the important Morgan patent.[4]

The district court held that Brainard's reissue claims 15, 19 and 20 were valid and infringed. These claims were substantially identical with claims in the original Brainard patent.[5] The principal issue raised by this appeal is whether plaintiff's employment of Beall in connection with the reissues of Brainard renders the claims in suit unenforceable. Defendant also challenges the district court's findings of validity and infringement and its holding that the asserted invalidity of certain broad reissue claims was irrelevant; and contends that it is entitled to affirmative relief under the antitrust laws and an award of attorneys' fees.

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[3] Plaintiff advised the Patent Office that it would not enforce claims 36 through 60. It did not, however, file a formal disclaimer pursuant to 35 U.S.C. § 253. *Compare* DTX 372A *with* 37 C.F.R. § 343 (disclaimer form—requiring statement that petitioner has reason to believe that "without any deceptive intention" the claims are invalid).

[4] Morgan No. 2,901,927, dated September 1, 1959, covering "Automatic Machine Tool."

[5] In claims 19 and 20, the term "tool holding means" was changed to "tool securing means," but neither party attaches any significance to this change.

I.

Several facets of the record have a bearing on our appraisal of the legal issues. Accordingly, it is appropriate to describe the industry, plaintiff's machines, the Morgan patent, the accused machines, the prosecution of the original Brainard patent and Examiner Beall's connection therewith, the nature of Beall's services to plaintiff after his retirement from the Patent Office, and, finally, the corrective steps taken by plaintiff to cure any possible misuse. We shall then explain why we have decided to reverse.

A. *The Industry.*

The parties manufacture automatic machine tools which can perform a variety of machining operations, such as milling, boring, drilling, threading and reaming. For each operation, the exact location, diameter and depth of the hole to be machined in the workpiece are predetermined and defined by a numerical code which can be translated into perforations on tape or cards. The operations are thus controlled "numerically." The concept of numerical control of machine tool operations became commercially important in the early 1950s.

The parties use numerical control, not merely to direct specific operations automatically, but also to control a sequence of operations and the selection of the specific tool needed for each operation. Their machines employ automatic tool changers. For the purpose of this case, they have stipulated that the relevant market may be described as "numerically controlled multi-function machine tools with automatic tool changers."

Since a sequence of operations normally requires the use of a variety of tools, the time required to effect a tool change has a direct and significant impact on costs; the efficiency of the tool changer is, therefore, of vital importance. Plaintiff's automatic tool changer was not the first to be developed, but apparently it is the best.

Plaintiff's "Milwaukee-Matic" machines were introduced in 1958 and first sold in 1959; sales increased each year

through 1967 when volume exceeded $36,000,000. During those years, plaintiff's sales of Malwaukee-Matic exceeded $150,000,000 compared to competitors' sales of between $75,000,000 and $100,000,000. Moreover, in 1968 plaintiff received approximately $573,000 of royalty income from its Brainard patent. It was a commercial success.

Plaintiff's machines were sold in different models and sizes at prices ranging from about $90,000 to over $350,000 each. Total sales of over 925 units through March, 1968, indicate an average per unit price of about $180,000. Plaintiff did not sell its automatic tool changer except as a part of the Milwaukee-Matic machine, and prior to 1969 was unwilling to discuss a separate license for the tool changer.

Plaintiff's customers include practically all types of manufacturers in the metal cutting industry, including the United States and foreign governments. The precision multiple operating capabilities of plaintiff's machines have contributed to the design and production of new products, especially in the aerospace industry.

Plaintiff's principal competitor in the numerically controlled automatic tool changing field is one of its licensees; at least two competitors are engaged in patent litigation with plaintiff; the total number of manufacturers is apparently about half a dozen. In 1967 plaintiff's sales represented over one-third of the total market.

B. *Plaintiff's Tool Changer.*

Plaintiff's machine uses a horizontal spindle. The tool changer may be simply described. It uses a rotating arm with two hands, one of which approaches the spindle to withdraw the tool which has just completed an operation, while the other is approaching the storage magazine to grasp the next tool to be used. The arm then rotates, simultaneously delivering the new tool to the spindle and returning the old tool to storage. As the arm returns to a parked position, the storage magazine rotates to place a third tool in position for selection after the second has done its job. The selection is controlled by coding on the tools themselves; this "tool coding" (as contrasted with "posi-

tion coding") makes it possible to place an old tool in the storage position from which the new tool has just been withdrawn without impairing the machine's ability to find that tool (or any other tool) when it is next needed.

This oversimplified description ignores a number of important features of the tool change mechanism,[6] but it serves to identify two concepts which are of principal importance in this litigation: (1) the use of tool coding to identify the tool to be selected from the storage magazine; and (2) the use of a two-handed arm to effect a simultaneous interchange between the magazine and the operating station.

Neither of these concepts is expressly identified in the three Brainard claims which the district court held valid and infringed. Defendant contends, however, that these claims are too broad to be patentable unless limited to machines using tool coding, particularly since plaintiff relied on this concept to distinguish the prior art—principally the Morgan patent—during the Patent Office prosecution. These two concepts clearly differentiate plaintiff's machines from the Morgan machine.

C. *Morgan.*

Mark Morgan was a project engineer for International Business Machines Corporation. Apparently he was primarily interested in applying the concept of numerical con-

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[6] The transfer arm actually moves in three different paths of travel: first, a lateral unhinging motion, from a parked position, which does not interfere with the drilling operation, into a position to make the tool transfer; second, a clockwise and counterclockwise rotation to grasp and exchange the two tools; and third, a horizontal path in order to withdraw the tools from, and subsequently to insert them into, the horizontal spindle and storage magazine. Moreover, other features of the transfer mechanism, such as the grip at the end of each arm, the pivotal movement of the stored tool to place it in position to be grasped by the transfer arm, and the circuitry are the subject of separate claims which are not directly relevant.

trol to an automatic tool changer. However, it is the mechanical features of the Morgan machine which are relevant here.

The Morgan machine uses a vertical spindle which may be moved down to grasp a tool positioned beneath it. Tools are stored in a vertical position in notches around the periphery of a disc-shaped magazine which has two horizontal paths of movement. First, it rotates until the position in which the desired tool is located is next to the spindle; and second, the entire magazine then moves laterally to place that tool directly beneath the spindle, where it is grasped by a wrenching mechanism which holds it until the spindle has descended and secured the tool. The magazine then withdraws by again moving laterally. After an operation with a tool has been completed, the magazine moves in to retrieve that tool, withdraws, rotates to a new position, moves back in to deliver the second tool to the wrenching mechanism, and then withdraws again to await the completion of the second operation.

The Morgan tool change sequence is obviously more time-consuming than plaintiff's simultaneous two-handed interchange which, because the tools themselves are coded, permits the old tool to be stored in the position from which the next tool has been withdrawn.

The claims of the Morgan patent are much broader than the particular machine described in its specifications. The claims may be read to cover plaintiff's machine as well as defendant's, and one of them might encompass any numerically controlled multi-purpose machine tool with an automatic tool changer.[7] Defendant was a licensee under the

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[7] Claim 10 of the Morgan Patent No. 2,901,927 reads as follows:

> "10. A data programmed machine tool comprising a rata storage medium containing data respecting the operation of said machine, data reading means for said medium, and a tool storage matrix operable in response to said reading means for interchanging selected tools with said machine."

Morgan patent. Morgan was the principal obstacle to the allowance of plaintiff's Brainard patent. Plaintiff never accepted a license under Morgan, but seriously considered not only a possible license, but also a challenge to the validity of Morgan and ultimately acquired it.

D. *Defendant's Machines.*

Defendant participated in the development of numerical control for machine tools in the early 1950s. Its two accused machines contain improvements over Morgan, but are apparently inferior to the Milwaukee-Matic. One of them is itself patented.[8] The vertical spindle machine (15V) has been loosely described as "two Morgans with one spindle"; the horizontal spindle machine (25H) more nearly resembles plaintiff's because it uses a rotating two-handed arm to withdraw the old tool from the spindle and to replace it with the next tool. Only a brief description of each machine is necessary.

1. *Model 15V.*

Instead of the one disc-shaped magazine used by Morgan, defendant's model 15V uses two. Each rotates in a horizontal plane to place the next tool in line with the spindle. Instead of moving an entire magazine under the spindle as in Morgan, however, the next tool is pushed into the operating position by a one-handed arm, and then grasped by the descending spindle. If only one magazine were used, the operation would be much like Morgan.

By using two magazines alternately, however, a simultaneous exchange of tools may be effected. While the first tool is being withdrawn into its original position in the first magazine, the second tool can be pushed from the second magazine into the operating position. The first magazine can then be rotated to place the third tool in position for insertion while the second magazine remains stationary to await the withdrawal of the second tool after its use.

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[8] Lehmkuhl No. 3,200,492, dated August 17, 1965, covering "multiple-use machine with tool changer." The machine described in the specifications is Model 15V.

Plaintiff contends that the simultaneous interchange by means of two one-handed arms, which is effected when the two magazines are used alternately, infringes Brainard's claim 15.[9] The less efficient Morgan-like use of successive tools from the same magazine is conceded to be noninfringing.

2. *Model 25H.*

As in the Milwaukee-Matic, the tool change in defendant's model 25H is effected by rotation of a two-handed arm. The old tool, however, is not replaced directly in the storage magazine, but instead is delivered to a shuttle which then carries it laterally to the magazine; the magazine is then rotated to the position from which the third tool is selected by the shuttle for redelivery to the transfer arm and subsequent exchange with the second tool.

Model 25H does not use tool coding, and the use of the shuttle would appear to be more cumbersome and time-consuming than the simple pivot which positions Milwaukee-Matic's next tool for transfer. Moreover, as in Morgan (and unlike the Milwaukee-Matic), the spindle in model 25H moves in the direction of its own axis to grasp and release tools. Nevertheless, the resemblance between the ma-

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[9] "15. In a machine tool having an operating station arranged to receive different tools; a frame; a tool storage magazine movably supported by said frame and having a tool change station; a plurality of tools removably carried by said tool storage magazine so that the tools in said magazine will move successively past the tool change station upon movement of said magazine; a motor connected to move said magazine; a control system operably connected to regulate the movement of said magazine to locate a succeeding tool at the tool change station while the machine tool is operating with a different tool at the operating station; and tool change means operable when actuated to replace said tool at the operating station with the tool at the tool change station."

chines supports the district court's finding of infringement of claims 19 and 20.[10]

E. *Prosecution of the Original Brainard Patent No. 3,052,011.*

The application for the original Brainard patent was filed in the Patent Office on June 27, 1958, and assigned to Division 13, for which T. Emmert Beall was Primary Examiner and R. H. Eanes was Assistant Examiner. In January 27, 1959, the Patent Office rejected 40 of the 49 claims originally asserted.

On September 1, 1959, the Morgan patent issued. About a month later, plaintiff filed the first amendment to its application, modifying many of the original claims and re-

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[10] "19. In a machine tool having a frame and an operating station which is provided with tool securing and operating means; tool storage means carrying a plurality of tools; selection means operative to select a desired tool in said tool storage means for placement in said tool [holding] securing means; a tool change arm rotatably carried by said frame and operable when rotated to replace a tool in said tool [holding] securing means with the selected tool from said storage means; and a source of power connected to rotate said tool change arm for transferring the tools into and out of said tool [holding] securing means.

"20. In a machine tool having a frame and an operating station which is provided with tool securing and operating means; tool storage means carrying a plurality of tools; a tool ready station disposed to selectively receive said tools; selection means connected to select the desired tool in said tool storage means for placement in said operating station; transfer means operating under the control of said selection means to transfer a desired tool in said tool storage means into said tool ready station; a tool change arm rotatably carried by said frame and operable when rotated to transport the tools between said tool ready station and said tool [holding] securing means for replacing a tool in said tool [holding] securing means with the selected tool from said tool storage means; and a source of power connected to rotate said tool change arm for transporting the tools between said tool ready station and said tool [holding] securing means."

questing withdrawal of the rejections.[11] Before any office action was taken on the first amendment, plaintiff filed a second amendment cancelling 14 claims and adding 12 new claims.[12] In the remarks supporting this amendment, plaintiff called attention to the issuance of the Morgan patent and explained that the new claims had been drawn to distinguish Morgan.[13]

On December 16, 17 and 18, 1959, pursuant to an invitation extended by plaintiff in November, and with the approval of the Patent Office, Examiners Beall and Eanes visited plaintiff's plant in Milwaukee to observe a demonstration of the Milwaukee-Matic machine. On one evening during this visit they attended a birthday party for plaintiff's president at his home, and the next evening visited in the home of one of plaintiff's patent attorneys.[14]

The first action in the Brainard file wrapper after December, 1959, is an office action dated May 23, 1960, which was signed by Beall but apparently dictated by Eanes. It allowed 12 claims and rejected the remainder, many as being unpatentable in view of Morgan. One of the claims in suit, subsequently allowed as No. 15, was simply "rejected as met by Morgan." Plaintiff's response to this office action was filed on November 21, 1960, and explained at length why Morgan was distinguishable.[15]

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[11] Amendment A, dated October 7, 1959, and filed on October 8, 1959.

[12] Amendment B, dated December 14, 1959, and filed on December 16, 1959. It was in this amendment that plaintiff first asserted any of the claims in suit (No. 15 originally filed as No. 58).

[13] DTX 1, p. 99.

[14] On the same trip they also visited Fond du Lac where they inspected defendant's plant and were entertained by executives of defendant.

[15] With respect to claim 15, it was pointed out that the Milwaukee-Matic magazine rotates to locate a new tool at the tool change station while another tool is operating, whereas in the Morgan machine the empty slot in the

There is then another interval from November, 1960, until June, 1961, in which no activity is indicated by the file wrapper. However, the possibility of initiating an interference with the Morgan patent was discussed with Examiner Eanes in an interview in Washington during the week of January 25, 1961. The interview is summarized in a memorandum in plaintiff's Patent Department file which indicates that several of the Brainard claims had been rejected on the basis of Morgan.[16] The memorandum makes no reference to Examiner Beall, and Beall did not recall any discussion of a possible interference proceeding. He did, however, recall discussing the possibility of "swearing back of the Morgan patent" with plaintiff's counsel and Eanes.[17] In general, Beall testified that he gave almost no personal attention to the Brainard applica-

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[15] (Continued)
magazine must remain in position to receive the previous tool while it is operating, and only after the operation is completed is it rotated to place the next tool in position for delivery to the spindle. The explanation adequately distinguishes the Morgan *machine*; whether or not it distinguishes the Morgan *claims* is, of course, another matter.

[16] DTX 62, dated January 25, 1961, reads in part:

> "Several of the broader claims presently in our Case 834 have been rejected as being drawn to an old combination of elements based on the disclosure in the Morgan patent. However, if the interference decision is in our favor, these claims will become allowable."

[17] "It was some time after the 1959 meeting that Mr. Eanes brought Mr. Wutschel, and I believe that Mr. Hajewski, but I am not sure about that, into my office on the question of swearing back of the Morgan patent." A.900. To "swear back" of Morgan it would have been necessary to make an oath showing conception of the Brainard invention before the filing date of the Morgan application.

tion.[18] Eanes, however, testified that Beall personally participated in "several interviews", because plaintiff's counsel, when they did not agree with Eanes, ". . . continually took me to Mr. Beall for further interview."[19]

On June 1, 1961, plaintiff filed a supplement making various technical changes which apparently resulted from office interviews with Examiner Eanes. The next development of significance occurred on September 27, 28 and 29, 1961, when plaintiff's patent counsel conducted a series of interviews with both Beall and Eanes. At these interviews they reviewed drafts of a new set of claims including those subsequently allowed as Nos. 19 and 20. Both Eanes and Beall suggested certain changes to make the claims allowable; both also expressed the opinion that claim 10 of the Morgan patent read on the Milwaukee-Matic machine. A second supplement was filed on October 16, 1961, and in an office action dictated by Eanes and signed by Beall on October 25, 1961, 24 claims, including claims 19 and 20 (at that time numbered 62 and 63), were allowed, and others, including claim 15 (at that time numbered 58), were cancelled or rejected. Thereafter another amendment was filed and considered, and additional claims, including No. 15, were allowed, and ultimately, on June 4, 1962, the formal Notice of Allowance was issued. It was signed by Beall.

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[18] "I paid no attention to the machine tool art, which was all handled by two of my experienced examiners. Also, all issues that went through the division would be examined by the assistant chief to see if there were any that required my personal attention, and those that didn't, and most of them didn't, he would put on my desk and I would sign one after another without opening the file, and that is the way this Brainard case went through my desk." A.938.

[19] A. 1015-1016.

The district court found no impropriety in the conduct of either Beall or Eanes prior to the issuance of the original Brainard patent.[20]

F. *Beall's Post-Retirement Service.*

Beall retired from the Patent Office on June 22, 1962.[21] The head of plaintiff's Patent Department made a trip to Washington to attend his retirement party two or three days later. On that visit he explored the possibility of employing Beall as a consultant, but Beall then expressed no interest in working for plaintiff.

On July 12, 1962, plaintiff's president met with Beall at his home and came to an understanding concerning his employment. Towards the end of July, Beall visited plaintiff in Milwaukee; on August 1 a written contract for the performance of part-time consulting services for $10,000 a year was executed. The contract was terminable by either party annually, but contemplated a term of five years. Beall actually continued to work for plaintiff until August of 1968 when the nature of his services came to the attention of plaintiff's trial counsel.

Shortly after he was employed by plaintiff, Beall was given two assignments involving an analysis of the relationship between the Morgan and Brainard patents. Ultimately, with the assistance of Beall, both patents were reissued.

1. *The Brainard Reissues.*

Beall's study of Brainard in relation to the prior art led him to the conclusion that the invention involved a

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[20] Defendant contended that the number of personal interviews was excessive and that written statements pertaining to the interviews should have been included in the Patent Office files. The court found no violation of any applicable Patent Office rule or policy.

[21] The retirement was voluntary in that Beall, who was then 65, had not reached the mandatory retirement age of 70.

much broader concept than was described in the allowed claims. In general, the claims related to (1) the simultaneous transposition of the spindle tool and a magazine tool by means of a two-handed arm, and (2) the use of tool coding to avoid either the delay associated with the rotation of the magazine after a used tool has been returned to its original position or else the sophisticated programming that would be necessary if each position had to be indexed first for tool selection and then for tool reception. Beall determined, however, that the Milwaukee-Matic machine had actually pioneered the concept of using a transfer means for bodily moving the selected tool from the magazine to the spindle (since in Morgan the magazine itself moved to the spindle, which then descended to grasp the tool). Thereafter Beall participated in the drafting of the broad claims included in plaintiff's applications for reissuance of the Brainard patent.

The inventor, Brainard, described the broad concept in an interview with one of plaintiff's patent attorneys in July 27, 1962:[22]

> "Hajewski: Who conceived the general concept of a single spindle machine tool with a mechanism for transferring a tool from a tool storage medium to the single spindle?
>
> "Brainard: I conceived this general concept as a desirable objective. The development of a mechanism for achieving this broad concept was more or less a process of evolution in which a number of engineers contributed various ideas." (DTX 418 p. 2.)

Generally speaking, the claims in the original patent covered the "mechanism" for achieving this broad concept, where the reissue claims were intended to cover the broad concept itself.

Beall worked on the reissues primarily in an advisory capacity, but he also discussed the applications with Eanes, his former subordinate, on more than one occasion.

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[22] This interview apparently took place only a few days before Beall signed his employment agreement.

After the first Patent Office action on the reissue application, which was unfavorable, Beall forwarded a proposed amendment to his client. In his forwarding letter he stated:

> "Incidentally, it would be helpful to me if my reports were temporarily removed from the file if and when the file is used at the Patent Office. Our friend might note the reports with great glee and attempt to inform a possible evasion of the two year rule. You probably removed them anyway. Further I do not see that any real evasion has been done and do not contemplate filing for register as a patent attorney anyway." (DTX 106, p. 5; A. 123)

Beall did not apply for registration to practice before the Patent Office until February of 1965. On one occasion in December of 1964 Eanes objected to his presentation of an amendment to the second reissue application on the ground that he was not registered. Beall and Eanes lunched together on two or three occasions and discussed the reissue application. The first Brainard reissue was dated May 26, 1964; the second reissue was on March 2, 1965.

In addition to his work on the claims, Beall advised plaintiff on tactics and procedure, including the form and consent of the oaths required in connection with the reissue applications. Each oath recited that the patent was partially inoperative because the applicants had failed to claim all that they were entitled to as a result of "inadvertence." The asserted "inadvertence" was the basic point which Beall made in his opinion analyzing the original claims. It was explained in an oath executed by the applicants to overcome certain Patent Office objections, in part, as follows:

> "That the complete scope of the invention was not fully appreciated before the patent issued and it is now realized that the Morgan patent No. 2,901,927 is the closest tool change art available insofar as it discloses the first structure in which a tool is com-

pletely removed from a tool storage medium and transferred to a spindle for the performance of work operations, but . . .

"That the present invention represents an advance in the art and includes among its features the broad concept of a tool transfer member operating to extract a tool from the tool storage magazine and transferring the extracted tool to the spindle as distinguished from said Morgan structure in which movement of the tool storage magazine for effecting the tool transfer is effected; . . . ." (DTX 2 p. 121)

A memorandum prepared by the vice president of a competitor after his counsel had reviewed the claims added by the first Brainard reissue appraised their significance as follows:

"It was the consensus that the new claims are so broad that they encompass not only the SAC Automatic Tool Changing System, and not only every tool changing system now in use, but also every tool changing system which might be conceived in the future." (DTX 549)

2. *The Morgan Reissue.*

The original application for the Morgan patent was filed on December 27, 1957, and the patent issued on September 1, 1959. A few months later, plaintiff's patent counsel made a preliminary inquiry of I.B.M. about the possibility of taking a license under Morgan.[23] Although the question whether the Milwaukee-Matic machine infringed the Morgan patent was the subject of study by both I.B.M. and plaintiff, no concrete action had been taken by either party before the original Brainard patent issued in September of 1962. They had a negotiating session in April of that year, however, in which the possibility of a license was discussed. In that meeting, plaintiff's patent counsel took the position that only claim 10 of the Morgan patent was arguably infringed

[23] Defendant was granted a license under Morgan in May, 1960.

by the Milwaukee-Matic machine, and that the broad construction required to support a charge of infringement would render the claim invalid. I.B.M.'s position was that claim 10 was valid and infringed.

In an interview with plaintiff's patent counsel during the prosecution of the Brainard application, Beall had commented on a possible conflict with claim 10 of Morgan. Shortly after Brainard issued and Beall had agreed to serve as a consultant, plaintiff requested him to make a thorough analysis of the possible infringement of Morgan by the Milwaukee-Matic machine. His conclusions confirmed the opinion already formed by plaintiff's patent counsel that only claim 10 was infringed and that claim 10 was invalid.[21] Promptly thereafter plaintiff reopened negotiations with I.B.M.

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[21] In the conclusion of his 22-page opinion on September 29, 1962 (DTX 83), Beall stated:

"Claim 10 — infringed but invalid."

Commenting on Beall's conclusion, plaintiff's counsel stated:

"We were particularly pleased to find that you confirmed our thinking that all of the claims except one are not infringed by the K&T structure and that the remaining claim is invalid in view of the prior art." (DTX 84)

The trial court sustained an attorney-client privilege objection to the admission of these documents. The judge received similar communications between Beall and plaintiff's patent department counsel in evidence. However, he apparently concluded that this exchange of letters between Beall and plaintiff's counsel related primarily to Morgan and that Morgan was not sufficiently material to the present litigation to justify rejection of the privilege. We agree with the trial court's apparent conclusion that it would not be appropriate to protect material communications between Beall and plaintiff's patent department. See Revised Draft of Proposed Rules of Evidence for the United States Courts and Magistrates (March 1971), proposed rule 503 (d) (1). This conclusion is applicable to communications relating to Morgan as well as Brainard in view of our analysis of the relationship between the two patents.

In March of 1963, plaintiff consulted Beall about the advantages of purchasing the Morgan patent from I.B.M. Among the advantages which they considered was the fact that Morgan taught "the broad concept of tape control of a tool change mechanism wherein a tool is bodily transferred from a storage member to a rotary spindle."[25] Beall recognized that the concept had been disclosed but not claimed in Morgan and immediately suggested the possibility of obtaining a reissue of Morgan after its acquisition.

Plaintiff also recognized that the acquisition "of Morgan would put K&T in a dominating position relative to the tool change art." To this comment Beall responded: "Especially true [if] Morgan was reissued." They expressly noted that in a reissue, "Morgan claim 10 could be altered to make it valid."

In an agreement effective as of April 1, 1963, plaintiff purchased the Morgan patent for $350,000, plus a share of future royalties. Before recording the assignment, plaintiff requested Beall to draft a set of reissue claims for Morgan, to prepare an opinion on the justification for reissue, and to outline the proper approach to be followed in filing the reissue application and processing it in the Patent Office.

With Beall's guidance and assistance, the application was filed on January 17, 1964, and the patent was reissued

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[25] The quotation is from DTX 93. This is a memorandum prepared for plaintiff's executive officers by its patent department counsel. It was prepared on March 18, 1963, and sent by counsel to Beall for his comments on March 22 (DTX 94). Those comments are contained in DTX 95 dated March 28, 1963. This series of documents was excluded on the same ground as DTX 83 and 84. We have considered them for reasons previously expressed. See note 24, *supra*. Apparently DTX 93 was excluded on the additional ground that it was essentially a communication between patent department counsel and plaintiff's officers. We believe the request for Beall's comments vitiates the claim of privilege.

on June 29, 1965.[26] In the Morgan reissue, claim 7 was narrowed by adding qualifying language and eleven new claims were added. Except for insignificant changes in punctuation, no amendment to claim 10 was made.

Before the Patent Office, unlike the position taken in its own appraisal during the negotiations with I.B.M., plaintiff contended that claim 10 was valid.[27] It hedged the possibility of a finding of invalidity, however, by the addition of six new claims, each of which incorporated the language of claim 10, plus additional qualifying language. The reissue was allowed on the theory that it narrowed the claims of the original patent to avoid prior art which had been overlooked inadvertently by I.B.M. The inadvertence was reasonable since I.B.M., the original owner of the patent, was a company that "manufactures electrical controls with very little, if any, experience in the machine tool field."[28]

G. *Plaintiff's Corrective Action.*

Without conceding any impropriety in the employment of Beall or any misuse of its patent, plaintiff took extensive remedial action, summarized as follows in its brief:

> 1. In August, of 1968 it terminated Beall's consulting contract when the nature of his services with respect to the reissue patents came to the attention of plaintiff's trial counsel.
>
> 2. The services of Mr. Wutschel, who had headed plaintiff's patent department for many years, were terminated shortly before trial, he having been made

[26] Re. 25,812.

[27] In his oath supporting the reissue application, plaintiff's vice president stated unequivocally ". . . that claim 10 in original form is considered patentable . . . that in order to bring out the further structure involved, claims of the character of claim 10 have been added: . . . ." (DTX 7 pp. 86-87)

[28] Moreover, counsel for I.B.M. were, for that reason, not familiar with the machine tool industry.

available for extensive deposition by defendant prior thereto.

3. Effective in April 1969 plaintiff limited the allegations of infringement to claims 15, 19, and 20.

4. By directors' action taken May 19, 1969, plaintiff relinquished all claims obtained through the re-issue and the re-issue of the Brainard patent (notwithstanding opinions of counsel that no advantage was obtained through the use of Beall's services relating thereto) and licensees were so notified.

5. By letters plaintiff invited its existing licensees to discuss a separate license of a tool changer if they so desired.

6. A revised form of Brainard license agreement was adopted.

7. Plaintiff's patent department was reorganized and thereafter reported to a newly employed attorney-at-law of substantial experience.

II.

Plaintiff denies that Beall's conduct violated the conflict of interest provisions of the Criminal Code, 18 U.S.C. § 207, or the Rules of Practice of the Patent Office. Even if the policy underlying those provisions was offended by Beall, plaintiff contends that the claims acquired by reissue are not invalid; moreover, since it has virtually abandoned claims 36 through 60, claims 15, 19 and 20 should survive because the original patent was untainted.

For purposes of decision we accept the district court's conclusion that the original Brainard patent was valid when it issued. Moreover, we accept the *bona fides* of plaintiff's significant corrective action. Those remedial steps may not, even impliedly, be taken as an admission of wrongdoing; otherwise we might encourage the obdurate defense of dubious conduct which experienced patent counsel could cause to be corrected. Plaintiff's curative measures, therefore, are prescinded from our consideration of the merits.

A.

The district court found that there had been no discussion between plaintiff and Beall about his possible employment until after he had already retired, and that his personal participation in oral interviews and his visit to plaintiff's plant involved no violation of Patent Office policy. We accept those findings. Nevertheless, this background is not irrelevant to our appraisal of Beall's post-retirement conduct.

First, it establishes beyond dispute that Beall participated personally and directly in the deliberations within the Patent Office which preceded the issuance of the original Brainard patent. His signature on the Notice of Allowance was not a mere ministerial act. Second, his employment by plaintiff promptly after the patent issued created an appearance of impropriety that imposed a special obligation on both Beall and plaintiff to avoid conduct which might raise questions about the integrity of the Patent Office itself. For this sequence of events, even though wholly innocent, fits precisely the pattern that a corrupt draftsman would have designed.

Finally, the background reminds us to identify the interests which the Patent Examiner is entrusted to protect. He is not an agent of the inventor or the inventor's assignee employed to assist in the procurement of a patent monopoly.[29] Nor is he a dispenser of monopoly grants, merely arbitrating disputes between rival claimants to a share of the royal prerogative. See *Graham* v. *John Deere Co.*, 383 U.S. 1, 5-6, 9; *Cf.*, *Darcy* v. *Allein*, 77 Eng. Rep. 1260 (K.B. 1602). For that reason, the significance attached by the district court to the fact that Beall and

[29] Why then should he, as both Beall and Eanes did, propose language which might make a claim allowable? Plaintiff's answer, implicit in its petition for rehearing, is that the Patent Office does not completely agree with our appraisal of the primary function of the examining procedure. See Manual of Patent Examining Procedure, 707.07(j) [R-20]. See also 707.07(d) [R-27].

Eanes were entertained by defendant as well as plaintiff on their trip to Wisconsin was wholly misplaced. The Examiner does not merely decide who shall receive the monopoly privilege; he must also decide whether the claim shall be allowed at all. For in exchange for the inventor's contribution to the public by the disclosure of the product of his genius, it is the public which pays his justly earned reward.[30] It is the public interest which the Patent Office was created to protect.

B.

A few months after Beall's retirement from Government service, Congress enacted a new conflict of interest statute. In material part it provides:

> "(a) Whoever, having been an officer or employee of the executive branch of the United States Government, of any independent agency of the United States, . . . after his employment has ceased, knowingly acts as agent or attorney for anyone other than the United States in connection with any judicial or other proceeding, application, request for a ruling or other determination, . . . in which the United States is a party or has a direct and substantial interest and in which he participated personally and substantially as an officer or employee, through decision, approval,

[30] "Whilst the remuneration of genius and useful ingenuity is a duty incumbent upon the public, the rights and welfare of the community must be fairly dealt with and effectually guarded. Considerations of individual emolument can never be permitted to operate to the injury of these." *Kendall* v. *Winsor*, 62 U.S. (21 How.) 322, 329. "In a former argument in this court, it was said to be worth more than twenty-five millions of dollars. This has been taken from the people, from the public, and made the private property of the patentee by the action of one of the departments of the government acting under the forms of law, but deceived and misled, as the bill alleges, by the patentee." *United States* v. *Bell Telephone Co.*, 128 U.S. 315, 370.

disapproval, recommendation, the rendering of advice, investigation, or otherwise, while so employed, . . .

"Shall be fined not more than $10,000 or imprisoned for not more than two years, or both: . . ."[31]

Plaintiff does not dispute that, by reason of his former status as a Primary Examiner for the Patent Office, Beall was a person to whom the statute applied. It is also clear that the potential impact on the public of the reissue applications placed them in the category of matters in which the United States has a direct and substantial interest.[32] Plaintiff argues, however, (1) that Beall did not act as an "agent or attorney" within the meaning of the statute, and (2) that the reissue applications were not matters in which Beall had participated while employed by the Government.

The first argument, in substance, is that Beall was not counsel of record for the plaintiff, but merely provided it with off-the-record aid and assistance.[33] Undeniably,

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[31] Section 207 — P.L. 87-849, 76 Stat. 1119, 1123, enacted Oct. 23, 1962; 18 U.S.C. § 207 (a). Defendant also relies on § 207 (b), but we find it unnecessary to consider the possible application of that portion of the statute.

[32] "The United States, by issuing the patents which are here sought to be annulled, has taken from the public rights of immense value and bestowed them upon the patentee. In this respect the government and its officers are acting as the agents of the people, and have, under the authority of law vested in them, taken from the people this valuable privilege and conferred it as an exclusive right upon the patentee. This is property, property of a value so large that noody has been able to estimate it." *United States* v. *Bell Telephone Co.*, 128 U.S. 315, 370; see also S. Rep. No. 2213, 87th Cong. 2d Sess., 1962 U.S. Code Cong. & Ad. News pp. 3854, 3861.

[33] This argument is supported by Congress's rejection of proposed statutory language which would have made it improper for a former employee merely to "aid or assist" someone else in connection with a matter in which he had participated. See "Memorandum of Attorney General Re-

however, as a full review of the facts demonstrates, in rendering legal advice and performing drafting and other services for plaintiff, Beall was acting in his professional capacity as an attorney even if we ignore his personal contacts with Eanes. The matters on which he worked were not mere technicalities; they were of great importance. The fact that his participation was not fully and frankly disclosed does not avoid the statutory proscription.

Plaintiff's second argument is also asserted as a basis for avoiding the operation of Patent Office Rule 341(g). That rule disqualifies a former examiner from the registration which is required as a precondition to practice in the Patent Office "unless he undertakes (1) not to prosecute or aid in any manner in the prosecution of any application pending in any examining division in which he served during his period of service therein; and (2) not to prepare or prosecute nor to assist in any manner in the preparation or prosecution of any application of another filed within two years after the date he left such division, and assigned to such division, without the specific authorization of the Commissioner."[34]

Since Beall did not apply for registration until more than two years after his retirement, he apparently considered the language of the rule inapplicable. Quite clearly,

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[33] (Continued)

garding Conflict of Interest Provisions of Public Law 87-849," 28 Fed. Reg. 985 (Feb. 1, 1963) quoted at 18 U.S.C.A. §§ 1 through 370, pp. 282, 285.

On the other hand, subsection (a) of § 207 covering action as an agent or attorney is clearly intended to prohibit a broader range of conduct than subsection (b) which refers to one who "appears personally before any court or department as agent, or attorney. . . ." See *ibid.*

[34] 37 C.F.R. § 1.341(g) as amended, 27 Fed. Reg. 830 (Jan. 27, 1962). Prior to the amendment, clause (1) of the rule referred to "any application pending in any examining division in which he served, on the date he left said division."

however, the rule reflects an underlying policy that former examiners should not perform the kinds of service that would make them ineligible for registration. Moreover, it is equally clear that the second clause made it inappropriate for Beall "to assist in any manner" in the preparation or prosecution of the first Brainard reissue application assigned to Division 13 without the specific authorization of the Commissioner of Patents.[35]

The language of the first clause of the rule raises the same question as the conflict of interest statute. Should the applications for reissue be regarded as new matter or as something that had been pending before Beall retired? A fair appraisal of plaintiff's argument requires consideration of the nature of a reissue.

C.

To place the subject of reissues in proper perspective, it should be noted that less than 1% of the patents which are granted are subsequently reissued.[36] The patent privilege is "an exception to the general rule against monopolies and to the right to access to a free and open market." *Precision Instrument Manufacturing Co.* v.

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[35] The second Brainard reissue application, also assigned to Division 13, was filed more than two years after Beall's retirement from the Patent Office.

The application for the Morgan reissue was filed on January 17, 1964, within two years of Beall's retirement. Neither the original application nor the reissue application was assigned to Division 13. However, Rule 341(g) also provided that "[A]ssociated and related classes in other divisions may be required to be included in the [former examiner's] undertaking. . . ." Beall's participation in connection with the Morgan reissue may therefore have conflicted with Patent Office policy.

Automatic Maintenance Machinery Co., 324 U.S. 806, 816.

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[36] Defendant's patent on the accused 15V machine was No. 3,200,492 (R. A. Lemmkuhl) dated August 17, 1965. The second Brainard reissue dated March 2, 1965, was No. 25,812.

Reissues, then, are a narrow category within an exception to the general policy of free competition.

The purpose of the patent grant is to reward, and thereby to encourage, invention by exchanging a limited exclusive right for disclosure of the inventor's novel concept. Early patent cases identified the contractual character of the "quid pro quo" exchanged between the inventor and the public. See, *e.g.*, *Pennock* v. *Dialogue*, 27 U.S. (2 Pet.) 14. At the time the patent issues, the inventor's disclosure to the public is complete. Having dedicated his idea to the public domain, he has no further consideration to deliver in exchange for additional monopoly protection to be obtained by a reissue of his patent. Nevertheless, the contract analogy is the source of the recognition of reissues.

Before the Patent Office examining procedures had been initiated, the issuance of a patent was a ministerial act, subject to judicial review should infringement litigation arise. Since a technical defect in the specifications invalidated the patent, the inventor was permitted to retain the benefit of his bargain with the public by cancelling his patent and obtaining a reissue "'when the defect in the specification arose from inadvertence or mistake, and without any fraud or misconduct on the part of the patentee.'" *Grant* v. *Raymond*, 31 U.S. (6 Pet.) 218, 240. In such a case, the reissue was necessary to the "faithful execution of the solemn promise made by the United States."[37]

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[37] "If the mistake should be committed in the department of state, no one would say that it ought not to be corrected. All would admit that a new patent, correcting the error, and which would secure to the patentee the benefits which the law intended to secure, ought to be issued. And yet the act does not in terms authorize a new patent, even in this case. Its emanation is not founded on the words of the law, but indispensably necessary to the faithful execution of the solemn promise made by the United States. Why should not the same step be taken for the same purpose, if the mistake has been innocently committed by the inventor himself?" *Grant* v. *Raymond*, 31 U.S. (6 Pet.) 218, 242.

The reissue privilege which was originally recognized to correct defects in the nature of a scrivener's error remains in the law today. The statutory privilege has been broadened but still contains the historic limitation that no new matter may be introduced in a reissue application. *Maxant Button & Supply Co.* v. *Sears Roebuck & Co.*, 388 F.2d 912, 916-17 (7th Cir. 1968). Any reissue, since it is predicated solely on the invention disclosed in the original patent, necessarily relates back to the original application for its justification. The statute provides, in part:

> "Whenever any patent is, through error without any deceptive intention, deemed wholly or partly inoperative or invalid, by reason of a defective specification or drawing, or by reason of the patentee claiming more or less than he had a right to claim in the patent, the Commissioner shall, on the surrender of such patent and the payment of the fee required by law, reissue the patent for the invention disclosed in the original patent, and in accordance with a new and amended application, for the unexpired part of the term of the original patent. No new matter shall be introduced into the application for reissue. . . ." 35 U.S.C. § 251.

Broadening reissues contain risks of abuse not involved in the mere correction of an error in the specification or in a narrowing reissue. As the Supreme Court has pointed out, in cases involving broadening reissues the circumstances of the original application may have special relevance to the deliberations within the Patent Office.[25]

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[25] "Now, in our judgment, a patent for an invention cannot lawfully be reissued for the mere purpose of enlarging the claim, unless there has been a clear mistake inadvertently committed in the wording of the claim, and the application for a reissue is made within a reasonably short period after the original patent was granted. The granting of such reissue after the lapse of long periods of time is an abuse of the power, and is founded on a total mis-

We, therefore, conclude that Beall's participation as an attorney in the prosecution of the Brainard reissues involved the same conflict of interest as if he had transferred his allegiance while the original application was still pending. His conduct was indefensible.

D.

In our opinion claims 36 through 60 of Brainard Re.-Re. 25,737 are invalid.[39] The misconduct evidenced by this record is no less serious than concealment of the true identity of the author of a technical article, *cf., Hazel-Atlas Glass Co.* v. *Hartford-Empire Co.*, 322 U.S. 238, or

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[38] (Continued)
conception of the law. The Commissioner of Patents has evidently proceeded, in these cases, on the view that a patent may be reissued after any lapse of time, for the purpose of making a broader claim, by merely showing that the claim might have been broader than it was, and that it was inadvertently made too narrow at the time. In this we think he has been entirely in error. Lapse of time may be of small consequence on an application for the reissue of a patent on account of a defective specification or description; or where the original claim is too broad. But there are substantial reasons, not applicable to these cases, why a claim cannot be enlarged and made broader after an undue lapse of time. The rights of the public here intervene, which are totally inconsistent with such tardy reissues; *and the great opportunity and temptation to commit fraud after any considerable lapse of time, when the circumstances of the original application have passed passed out of mind*, and the monopoly has proved to be of great value, make it imperative on the courts as a dictate of justice and public policy, to hold the patentees strictly to the rule of reasonable diligence in making applications for this kind of reissues." *Mahn* v. *Harwood*, 112 U.S. 354, 359-60. (Emphasis added.)

[39] Despite 18 U.S.C. § 218, a final, conviction under § 207 is not a necessary predicate to a determination that the reissue claims are invalid. *United States* v. *Mississippi Valley Co.*, 364 U.S. 520. See S. Rep. No. 2213, 87th Cong. 2d Sess., 1962 U.S. Code Cong. & Ad. News p. 3863.

the concealment of a prior use by the brother of the inventor, *Keystone Driller Co.* v. *General Excavator Co.*, 290 U.S. 240. As those cases hold, therefore, the facts call for nothing less than a complete denial of enforceability of any of the claim acquired by reissue.[40]

In *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172, the Court characterized a patent procured by fraud as not merely unenforceable but invalid. The Court recognized a distinction between so-called "technical fraud," which might result from "an honest mistake" (*id.* at 177) or from a "judicial finding of 'obviousness'" (*id.* at 179, Harlan, J., concurring), and fraud involving the willful misrepresentation of facts to the Patent Office. Walker's allegations fit the latter category. To support its conclusion that Walker's action was not barred by the rule that only the United States may sue to cancel or annul a patent, the Court quoted a passage from the *Precision Instrument* opinion which is relevant here:

> "The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolis spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope." 382 U.S. at 177 (quoting from 324 U.S. at 816).

We think the phrase "fraud or other inequitable conduct" encompasses the kind of conduct disclosed by this record. A violation of the proscriptions against conflict of interest to obtain a broadening reissue involves the same threat to the public interest as actual fraud practiced on the Patent Office. *Cf.*, *United States* v. *Mississippi Valley Co.*, 364 U.S. 520.

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[40] Indeed, in *Keystone Driller* the court denied relief with respect to patents untainted by the fraud as well as the tainted claims. See also *Precision Instrument Manufacturing Co.*, v. *Automatic Maintenance Machinery Co.*, 324 U.S. 806.

A review of the projects on which the former Primary Examiner provided technical and tactical guidance reveals gross abuse of the statutory privilege of reissue to cure defects resulting from "inadvertence." It is quite clear that the inventor who conceived the desirable objective of using an independent means to transfer a tool from the storage magazine to the operating spindle shortly after he began work on the Milwaukee-Matic project in 1956 did not consider that broad concept patentable. It was Beall, several years later, who discovered the inadvertence in failing to file claims encompassing that broad concept. Beall also had recognized the overlap between claim 10 of the Morgan patent and the Milwaukee-Matic machine while he was still Primary Examiner of Division 13; that overlap was a factor subsequently considered in connection with the acquisition and reissuance of Morgan to enlarge plaintiff's "dominating position relative to the tool change art." Whether the reissue of Morgan could truly be defended as narrowing [11] when the validity of claim 10 was reasserted and re-enforced by the addition of related claims after plaintiff and Beall had privately concluded that claim 10 was invalid, is a question we need not decide. It is, however, manifest that the use of Morgan was ancillary to plaintiff's purpose to obtain a monopoly on the broad concept recognized by Brainard in 1956, but not protected by the patent issued in 1962.

Though the facts, the time intervals, and the relevant statutory provisions differ, we believe the Supreme Court's comments in *Miller* v. *Brass Co.* are strikingly apt:

> "But there is another grave objection to the validity of the reissued patent in this case. It is manifest

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[11] The Morgan patent issued in 1959. Plaintiff could not have obtained a broadening reissue in 1963. Section 251 provides in pertinent part:

> "No reissued patent shall be granted enlarging the scope of the claims of the original patent unless applied for within two years from the grant of the original patent."

on the face of the patent, when compared with the original, that the suggestion of inadvertence and mistake in the specifications was a mere pretence; or if not a pretence, the mistake was so obvious as to be instantly discernible on opening the letters-patent, and the right to have it corrected was abandoned and lost by unreasonable delay. The only mistake suggested is, that the claim was not as broad as it might have been. This mistake, if it was a mistake, was apparent upon the first inspection of the patent, and if any correction was desired, it should have been applied for immediately.

"These afterthoughts, developed by the subsequent course of improvements, and intended, by an expansion of claims, to sweep into one net all the appliances necessary to monopolize a profitable manufacture, are obnoxious to grave animadversion. The pretence in this case that there was an inadvertence and oversight which had escaped the notice of the patentee for fifteen years is too bald for human credence." 104 U.S. 350, 351-52.

Having concluded that claims 36 through 60 are invalid, we must consider the effect of that conclusion on claims 15, 19 and 20 in view of the provisions of the 1952 amendments to the Patent Code dealing with reissues and disclaimer.

E.

Unlike an original patent in which all claims have effect from the same date of issue, the claims in a reissued patent may have different effective dates. As 35 U.S.C. § 252 now provides, to the extent that the claims of a reissued patent are identical with the original patent, they "constitute a continuation thereof and have effect continuously from the date of the original patent." Thus, claims 15, 19 and 20 were effective as of September 4, 1962, whereas claims 35 through 60 were effective as of May 26, 1964, or March 2, 1965. This provision supports plaintiff's argument that the invalidity of the added

claims should not impair the enforceability of the original claims.

We believe, however, that the answer to the precise question presented here is found in other provisions of the Code. Section 252 was enacted to deal with the problem of intervening rights of third parties who may have relied on the limited scope of the original patent before the reissue was allowed. See Frederico, "Commentary on the new Patent Act," preceding 35 U.S.C.A. at pp. 45-47. This provision did not eliminate the requirement that the original patent be surrendered for cancellation at the time of a reissue. Indeed, except for the provision relating to intervening rights, § 252 itself expressly provides that "every reissued patent shall have the same effect and operation in law, on the trial of actions for causes thereafter arising, as if the same had been originally granted in such amended form. . . ."

If an original patent contains some claims which are valid, and some which are invalid, it is now settled that the patentee may sue on the valid claims provided that a specific statutory condition is met. Formerly, unless promptly disclaimed, an invalid claim would vitiate the entire patent. *Ensten* v. *Simon, Ascher & Co.*, 282 U.S. 445. The rule was based on the potential deterrence to competitors who might not realize that an allowed claim was in fact invalid. *Id.* at 453. This deterrence would be eliminated by filing a formal disclaimer which would then come to the attention of any member of the public investigating the status of the patent. See *Marconi Wireless Co.* v. *United States*, 321 U.S. 1, 58.

Now, even without a formal disclaimer, the invalidity of one claim does not thereby render the remaining claims invalid. Like the right to sue on a valid claim in a patent containing invalid claims, however, the statute expressly identifies a condition which must be met. That condition is that the claim be invalid "without any deceptive intention."

The disclaimer section now provides, in part:

> "Whenever, without any deceptive intention, a claim of a patent is invalid the remaining claims shall not thereby be rendered invalid." 35 U.S.C. § 253.

And the authorization for an action for infringement of a patent containing an invalid claim provides, in part:

> "Whenever, without deceptive intention, a claim of a patent is invalid, an action may be maintained for the infringement of a claim of the patent which may be valid." 35 U.S.C. § 288.

Plaintiff cannot meet the statutory condition. As we have already noted, in *Walker* the Supreme Court recognized a distinction between so-called technical fraud, based for example on a finding of obviousness, and actual fraud or other inequitable conduct. We believe the statutory requirement "without deceptive intention" identifies the latter category and that Beall's conduct falls within it. Claims 36 through 60 are invalid but not "without any deceptive intention." Fairly read, § 288 prohibits the maintenance of any action on a patent which includes claims which are invalid by reason of deceptive intention. This reading is supported by the inclusion of the same condition in § 253.[42]

We have no doubt that plaintiff is chargeable with responsibility for Beall's conduct. The trial court so found. His employment was negotiated by the president of the company. His services related to matters of vital importance to the company. He worked closely with the head of the company's patent department and cautioned him about the desirability of avoiding reference to his participation in the matter. The fact that he accepted relatively nominal compensation for his part-time labors does not exclude plaintiff from full responsibility for the work it employed and directed Beall to perform. Accordingly,

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[42] That condition also prevented plaintiff from filing a formal disclaimer. See footnote 3, *supra*.

plaintiff is chargeable with "deceptive intention" within the meaning of the Patent Code. As we read the statute, the infringement action must therefore fail.

We have considered and reject plaintiff's contention that its significant curative steps, including virtual abandonment of the claims acquired by reissue, have cleansed its hands sufficiently to protect the viability of claims 15, 19 and 20. Since plaintiff is charged with responsibility for, and knowledge of, Beall's conduct, its commencement of this litigation, asserting infringement of the reissue claims as well as those still in dispute, was itself an abuse of the patent privilege. Not until after Beall's conduct was revealed during pretrial discovery did plaintiff renounce its efforts to exploit the broadening reissues. More fundamentally, since the conduct is within the "deceptive intention" category, the curative steps cannot overcome the statutory objection to maintenance of the action.

III.

Two related questions remain. Defendant contends that it should recover its attorneys' fees pursuant to 35 U.S.C. § 285, and treble damages pursuant to § 4 of the Clayton Act, 15 U.S.C. § 15.

A.

We agree that this is an exceptional case and that the recovery authorized by § 285 should be allowed.[43] The factors which we consider of controlling importance are not the protracted and complex character of the litigation but rather the nature of plaintiff's wrongdoing and its potential impact on the public. See *Monolith Portland Midwest Co.* v. *Kaiser Aluminum & Chemical Corp.*, 407 F.2d 288, 294 (9th Cir. 1969); *cf.*, *Scott Paper Co.* v. *Fort Howard Paper Co.*, 432 F.2d 1198, 1204-05

[43] 35 U.S.C. § 285 provides:
"The court in exceptional cases may award reasonable attorneys' fees to the prevailing party."

(7th Cir. 1970), *cert. denied*, 401 U.S. 913. It is of paramount importance that neither the integrity of the Patent Office, nor public confidence in that integrity, be impaired. Moreover, the public has a comparable interest in identifying and forestalling the kind of abuse of the narrow statutory reissue privilege which is disclosed by this record. Instead of the proper correction of an inadvertence, necessary to ensure that the inventor or his assignee will receive a fair reward for his disclosure, the Brainard and Morgan reissues were strategic maneuvers in a coordinated campaign to aggrandize control over an entire basic industry. A patent is not a beachhead from which, once secured, a patentee may scout adjacent territory for possible conquest by means of acquisition and reissue. By casting a revelatory light on the potential impact of broadening reissues, defendant, in the proper pursuit of its own private interests, has performed a significant public service.

B.

The wrongful acquisition of monopoly power is prohibited by § 2 of the Sherman Act. The parties have stipulated that the relevant market is multifunction machine tools with automatic tool changers. Since plaintiff controls only about one-third of that market, it has not achieved monopoly status. See *United States* v. *Aluminum Co. of America*, 148 F.2d 416, 424 (2nd Cir. 1945). Plaintiff's actual position in the industry is not, however, the sole test of violation of § 2. By condemning attemps to monopolize, that section directs itself against dangerous probabilities as well as the completed result.[44]

[44] "Intent is almost essential to such a combination and is essential to such an attempt. Where acts are not sufficient in themselves to produce a result which the law seeks to prevent—for instance, the monopoly—but require further acts in addition to the mere forces of nature to bring that result to pass, an intent to bring it to pass is necessary in order to produce a dangerous probability that it will happen. *Commonwealth* v. *Peaslee*, 177 Massachu-

A reliable or accurate measure of the actual likelihood that plaintiff would have achieved monopoly status if Beall's wrongful conduct had never been disclosed is, of course, not possible. However, we do not understand the "dangerous probability" test to involve an evaluation of the actual likelihood that an attempt would have succeeded if not frustrated by an intervening event. Rather, it requires an appraisal of the alleged offender's ability to achieve the forbidden result,[15] his intent,[16] and the nature of his overt actions.[17] In an antitrust context we must consider the firm's capacity to commit the offense, the scope of its objective, and the character of its conduct. The ultimate concern is the firm's actual or threatened impact on competition in the relevant market.[18]

Plaintiff's size, representing one-third of the industry, was "impressive." See *United States* v. *Columbia Steel Co.*, 334 U.S. 495, 533. At least one significant competitor

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[14] (Continued)
setts, 267, 272. But when that intent and the consequent dangerous probability exist, this statute, like many others and like the common law in some cases, directs itself against that dangerous probability as well as against the completed result." *Swift & Company* v. *United States*, 196 U.S. 375, 396.

[15] "Whenever the law makes one step towards the accomplishment of an unlawful object, with the intent or purpose of accomplishing it, criminal, a person taking that step, with that intent or purpose, *and himself capable of doing every act on his part to accomplish that object*, cannot protect himself from responsibility by showing that, by reason of some fact unknown to him at the time of his criminal attempt, it could not be fully carried into effect in the particular instance." *Commonwealth* v. *Jacobs*, 9 Allen 274, 275 (Mass. 1864) (Emphasis added).

[16] *Thacker* v. *Commonwealth*, 114 S.E. 504 (Va. 1922).

[17] *Commonwealth* v. *Peaslee*, 59 N.E. 55, 56-57 (Mass. 1901).

[18] See Report of the Attorney General's National Committee to Study Antitrust Laws (1955), 8, 11.

was a licensee under the Brainard patent. Plaintiff's patent position was fortified by its ownership of Morgan. Its sale and license arrangements were highly profitable. Clearly plaintiff was a firm with the capacity to make a serious attempt to acquire monopoly status.

Plaintiff cannot deny that it intended to acquire the power to exclude competition from the portion of the market described in the broad claims of the twice reissued Brainard patent. A competitor described those claims as broad enough to cover ". . . not only every tool changing system now in use, but also every tool changing system that might be conceived in the future." We need not accept that description to recognize that exclusive control of the broad concepts encompassed by these claims, when added to the firm's other attainments (including its acquisition of Morgan and the products of its own ingenuity), would endanger the competitive process. Fulfillment of its objectives would have significantly enhanced its market position.[49]

We have concluded that plaintiff's employment of Beall was conduct comparable to that condemned by the Supreme Court in *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172. Because of its wrongful character and its potential for harm to the public, that conduct is appropriately characterized as "predatory."

Thus, the uncontradicted evidence establishes plaintiff's capacity to commit the offense, its intent to acquire the power to exclude competition from a significant share of the market, and its use of predatory means to accomplish its purpose. In *Walker* the Court held that the enforcement of a fraudulently procured patent would give rise to a § 2 violation if the exclusionary power of the

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[49] There can be no doubt that the power to require all competitors either to accept licenses and therefore incur royalty costs or to abandon production of any machines infringing the broadened Brainard reissue claims would have an impact on price and output in the relevant market.

illegal patent claim in the relevant market for the product involved exceeded accepted antitrust criteria.[*] Since we find the same objection to the procurement of a patent by violation of conflict of interest principles as by fraud, under our appraisal of the exclusionary power of the Brainard reissue claims, that holding persuades us that plaintiff has violated § 2 of the Sherman Act.

This conclusion is consistent with other evidence in the record upon which defendant places great stress. Thus, the provisions in plaintiff's licenses prohibiting separate manufacture or sale of the patented automatic tool changer and requiring licensees to pay royalties on an entire machine tool even though the patented unit represented only about 10% of its cost are probative of an intent to exclude competition and to enhance prices. *Cf., American Photocopy Equipment Co. v. Rovico, Inc.*, 359 F. 2d 745 (7th Cir. 1966). Similarly, although the acquisition of one of two dominating patents by the owner of the other has not been held to constitute a violation of the antitrust laws, plaintiff's acquisition of Morgan may be taken as evidence of an intent to restrain competition. *Cf., United States v. Singer Manufacturing Co.*, 374 U.S. 174. We do not, however, rely on that evidence because it is subject to different interpretations which would require the kind of evidentiary analysis that should be made by the district court in the first instance. The basic factors on which we do rely do not involve the resolution of any disputed questions of fact. We have not disturbed any of the findings made by the district court and we have no doubt that if he had considered the reasoning of *Walker* applicable to plaintiff's employment of Beall, as we have held, he would also have found a violation of the Sherman Act.

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[*] Day, "Relation of Patent Validity to Antitrust," 39 Antitrust Law Journal 488 (1969-70).

C.

Even though defendant has proved a violation of the Sherman Act, to recover damages he must also demonstrate that plaintiff's conduct "injured [him] in his business or property." 15 U.S.C. § 15. We are not at all sure that defendant has met this additional burden.

Defendant contends that plaintiff unlawfully acquired a dominant position in the market and that a sales advantage, once obtained, tends to "pyramid" to the inevitable disadvantage of competitors. There is force to this contention, but certain qualifications must be identified.

We have accepted the district court's conclusion that the original Brainard patent was valid when it issued on September 4, 1962. By then, presumably by virtue of the superior quality of its machine, plaintiff had already obtained a position of market leadership. No adverse impact on defendant appears to have resulted from the acquisition of Morgan in 1963.[1] Not until after the date of the first reissue of Brainard on May 26, 1964, can defendant properly suggest that the *de Bresson* effect of the invalid claims obtained by reissue had any impact on its own research and development. Indeed, it was not until May of 1966 that plaintiff notified defendant of position that the Brainard patent was being infringed. The sales pyramid may, therefore, have been constructed on a lawful foundation.

Defendant has also argued that plaintiff's dominant position, coupled with its restrictive licensing practices, has enabled it to enhance the price level. If this be so, defendant, as a competing manufacturer of machines,

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[1] Plaintiff's acquisition of the Morgan patent did not affect defendant's license thereunder. The license was negotiated with I.B.M.; the amount of royalty payable was unaffected by the identity of any subsequent owner of the patent. Although the transfer of ownership may have enhanced plaintiff's market power, an adverse impact on defendant did not necessarily ensue.

would not have been injured.[32] Defendant asserts, however, that it was also a customer of plaintiff. We are not sure how significant its purchases were, when they occurred, or even whether they were Milwaukee-Matic machines.

Finally, defendant's president testified that certain potential customers, particularly in Europe and Japan, declined to make purchases from it because of concern about possible infringement of the Brainard patent, including the claims acquired by reissue. We are unable to appraise the significance of this testimony as a matter of first impression.

In the district court the parties agreed to postpone any determination as to the amount of damages until after final decision on the merits. The trial did encompass the question whether defendant suffered any injury by reason of an antitrust violation. Because it found no violation of the antitrust laws, the district court had no occasion to make any findings on the fact of damage issue. On this issue the burden of proof is upon defendant; as indicated, we are not at all sure that it has sustained its burden. On the other hand, we cannot say as a matter of law that it suffered no injury whatsoever. The issue is one which the district court is better able to resolve than we are. See *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 123-35. Whether it is necessary or appropriate to hear additional evidence on this factual issue we leave to the district court's sound discretion.

The judgment is reversed and the case is remanded to the district court with directions to enter judgment in favor of the defendant on the complaint, to make an appropriate award of attorneys' fees, and to conduct such additional proceedings on the counterclaim as it deems appropriate in the light of this opinion.

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[32] Defendant identifies a number of restrictive provisions in the Brainard license agreements. But defendant never took a license under the Brainard patent, and to the extent that those provisions made plaintiff's licensees less effective competitors, defendant certainly was not harmed.

No. 18354

PELL, *Circuit Judge*, dissenting.

While appreciating the closely reasoned, analytical opinion of Judge Stevens, I find that I am unable to concur in the result reached. Therefore I respectfully dissent.

Condensing the majority opinion to its pivotal point, although admittedly not an easy task considering its breadth, it appears to me that it imposes punishment for misconduct not legally related to patent claims sought to be enforced.

We have here patent claims in suit which the district court found to be valid and infringed. The majority opinion does not reach an opposite result other than upon the matter of the alleged misconduct, yet the claims are cut off as a basis for judicial enforcement because of ex post facto circumstances.

I cannot help but feel that this court, although not purporting to do so, is nevertheless using this litigation as a vehicle for punishing conduct which it finds reprehensible.

Today's climate of lack of public confidence in governmental officials is not conducive to judicial condonation of any unethical or otherwise improper behavior on the part of such officials. Nothing I say herein is to be taken as any approval of the conduct of either the plaintiff or Beall subsequent to the latter's retirement and prior to the plaintiff's abandonment of the claims acquired by reissue. Although plaintiff in taking its "extensive remedial action" did not concede any impropriety in the employment of Beall nor that any advantage was obtained through the use of his services on the two reissues, the majority opinion terms Beall's conduct indefensible. For the purposes of this dissent, I am accepting this categorization.

However, the indefensible conduct occurred subsequent to the granting of the original patent which included

claims 15, 19 and 20. The district court found no irregularity in any prior conduct and the majority opinion accepts the finding. Instead of letting the matter stand there and proceeding to the impact of 35 U.S.C. § 288 on the situation, the majority opinion relates the prior events as relevant "background." How so? I would like to dispel my lingering suspicion that the majority feels that the prior conduct itself constituted some crippling irregularity.

At most, the activity in question might have caused Beall to feel that he was suspect and perhaps it should have indicated to him that he should have no post-retirement connection with the patent, thereby making having the connection in fact more reprehensible. But the point of subsequent reprehensibility is not herein denied; rather, my thesis is that subsequent activity should not be retroactively applied to invalidate that which was otherwise validly achieved without found irregularity.

The majority opinion achieves retrospective invalidation via 35 U.S.C. § 288 in the words "without deceptive intention" but ignores the clear mandate of 35 U.S.C. § 252 that the claims of the original patent "have effect continuously from the date of the original patent."

The specific matter before us appears to be one of first impression and because of this country's historical, and properly founded, animadversion to legislation smacking of ex post facto characteristics, I am unable to construe 35 U.S.C. § 288 as meaning that Congress intended any more than that the "deceptive intention" applied to patent claims of a contemporaneously effective date, some of which are invalid because of deceptive intention. The result, however, of the majority opinion is to carry back the taint to earlier claims, to visit the sins of the son upon the father.

Properly, it seems to me, the patent claims once found valid should be clothed with protective immunity not subject to being pierced by subsequent misconduct of the

collateral type here involved. This, of course, would not attach where subsequent direct misuse was involved.

While the issue of deceptive intention was not before the court in *Forboro Co.* v. *Taylor Instrument Companies*, 157 F.2d 226, 228 (2d Cir. 1946), *cert. denied*, 329 U.S. 800 (1947), the principle enunciated by Judge Learned Hand in that case would seem to me to be applicable: "... the surrender of the original patent, resulting from the acceptance of the reissue, did not invalidate any claims which he [the original patentee] carried over into the reissue."

Judge Hand was of the opinion, as I am, that the matter was set at rest by the amendment of the precursor of 35 U.S.C. § 252. Section 252 was taken from Section 64 of Title 35[1] and it is of interest to note that the prior section refers to "fraudulent or deceptive intention" but relates this only to error in connection with the original patent.

We have here in the original patent, claims of an invention filing a much needed want, one entering into immediate use and one meeting with substantial commercial success. *See England* v. *Deere & Co.*, 284 F.2d 460, 463 (7th Cir. 1960), *cert. denied*, 365 U.S. 870 (1961).

In my opinion, the plaintiff having effectively abandoned all claims other than the three which were based on the original patent, 35 U.S.C. § 252 is a proper basis for the bringing of the present action and makes proper the decision reached by the district court.

Further, in any event, I think the district court's decision should be affirmed because of the positive ameliorating steps taken by the plaintiff. The majority opinion properly refrains from drawing any inference of misconduct from the curative actions taken. To do otherwise would be

[1] Act of July 8, 1870, ch. 230, § 53, 16 Stat. 205, amended May 24, 1928, ch. 730, 45 Stat. 732. Section 64, as amended, is set out in 35 U.S.C.A. Appendix II at 833.

highly inconsistent with a desirable public policy. Analogies such as the lack of admission in offers to compromise and in repairing faulty premises subsequent to an accident come to mind.

Those analogies also should remind us of the underlying policy rationale that action such as that taken by plaintiff here would be discouraged if it were to be the basis of any admissions of liability (misconduct here). Instead, public policy dictates that such action should be encouraged.

It seems to me that the majority opinion, even though no inference of admission of misconduct is per se drawn from the retractive steps, nevertheless cannot but tend to discourage others from attempting to set their own houses in order. The alternative obviously is a vigorous litigative defense.

For these reasons I think the district court's conclusion is correct "that by reason of the plaintiff's formal abandonment of the reissue claims, any illegality in connection with the prosecution of the reissue applications does not, as a matter of law, make the original patent [claims] invalid." *Kearney & Trecker Corp. v. Giddings & Lewis, Inc.*, 306 F. Supp. 189, 197 (E. D. Wis. 1969).

The majority opinion seems to suggest a fault in the abandonment as being belated in that it only occurred after pretrial discovery. However, there is cause from the record as a whole to believe that plaintiff, and its special trial counsel who had not been previously involved in the matters herein, considering all aspects of the matter including the termination of the employment of the long time house counsel, did act with reasonable promptitude in causing the purging steps to be taken when the pretrial discovery revealed the true state of affairs.

In any event, there is authority that purging steps may be effective at any stage of the proceedings. See, *e.g.*, *White Cap Co. v. Owens-Illinois Glass Co.*, 203 F.2d 694,

698 (6th Cir.), *cert. denied*, 346 U.S. 876 (1953); *cf.*, *Standard Oil Co.* v. *United States*, 283 U.S. 163 (1931).

"These issues present questions of fact. . . . Whether a purge has been effected under the facts of a given case is largely discretionary with the trial court." *Preformed Line Products Co.* v. *Fanner Mfg. Co.*, 328 F.2d 265, 279 (6th Cir.), *cert. denied*, 379 U.S. 846 (1964).

I would find no abuse of discretion here, and on the issues as a whole it seems to me that we are not in a position to hold the findings on which the district court's decision was based to be clearly erroneously. Rule 52(a), Fed. R. Civ. P., *G. Leblanc Corp.* v. *H. & A. Selmer, Inc.*, 310 F.2d 449, 459 (7th Cir. 1962), *cert. denied*, 373 U.S. 910 (1963).

Accordingly, I would affirm the judgment of the district court.

APPENDIX C

December 1, 1971.

ORDER

Having considered the petition for rehearing,

It Is Hereby Ordered that the following changes be made in the slip opinion dated October 28, 1971:

(1) The first sentence of the second full paragraph on page 13 is revised to read as follows:

> "In addition to his work on the claims, Beall advised plaintiff on tactics and procedure, including the form and content of the oaths required in connection with the reissue applications."

(2) Footnote 29 on page 18 is revised to read as follows:

> "Why then should he, as both Beall and Eanes did, propose language which might make a claim allowable? Plaintiff's answer, implicit in its petition for rehearing, is that the Patent Office does not completely agree with our appraisal of the primary function of the examining procedure. See Manual of Patent Examining Procedure, 707.07(j) [R-20]. See also 707.07(d) [R-27]."

The petition for rehearing is denied. Judge Bell voted to grant a rehearing.

FILED
MAR 23 1972

No. 71-1081

In the

Supreme Court of the United States

OCTOBER TERM, 1971

KEARNEY & TRECKER CORPORATION,

Petitioner,

vs.

GIDDINGS & LEWIS, INC.,

Respondent

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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INDEX

	PAGE
BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI	1
OPINIONS BELOW	1
JURISDICTION	2
QUESTIONS PRESENTED	2
STATUTES AND REGULATIONS INVOLVED	3
STATEMENT OF THE CASE	6
GROUNDS FOR DENYING WRIT OF CERTIORARI	8
1. Petitioner Has Made No Showing of Any Special or Important Reason Why Review on Writ of Certiorari Should be Granted in This Case	8
2. There Is No Conflict to be Resolved	11
3. No New Question of Federal Law Is Involved in the Application of Existing Law to the Facts of This Case	13
4. It is Within the Province of a Reviewing Court to Consider Documentary Evidence and Dispose of an Appeal on the Merits	17
CONCLUSION	20

TABLE OF AUTHORITIES

Cases

B. F. Goodrich Co. v. Rubber Latex Products, Inc., 400 F. 2d 401 (6th Cir. 1968)	17
Collins v. Hoffman, 62 Wash. 278 (1911)	18

PAGE

Collins v. Hoffman, 74 Wash. 264 (1913) 18

Deep Welding, Inc. v. Sciaky Bros., Inc., 417 F. 2d 1227 (7th Cir. 1969) 19

Fargo Glass & Paint Co. v. Globe American Corp., 201 F. 2d 534 (7th Cir. 1953) 17

Hart v. Gallis, 275 F. 2d 297 (7th Cir. 1960) 17

Hazel-Atlas Co. v. Hartford Empire Co., 322 U.S. 238 (1944) 12, 13

Intermountain Research & Engineering Co., Inc. v. Hercules, Inc., ... F. Supp. ....., 171 USPQ 577 (C.D. Calif. 1971) 15

Keystone Driller Co. v. General Excavator Co., 290 U.S. 240 (1933) 13

Stande v. Bendix Products Corp., 26 F. Supp. 901 (N.D. Ind. 1939), *aff'd on other grounds*, 110 F. 2d 484 (7th Cir. 1940) 15

Strong v. General Electric Co., 305 F. Supp. 1084 (N.D. Ga. 1969), *aff'd per curiam*, 434 F. 2d 1042 (#2) (5th Cir. 1970), *cert. denied*, 403 U.S. 906 (1971) 15

Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., 382 U.S. 172 (1965) 11, 12, 13, 14

Other Authorities

15 U.S.C. §2 ..... 2, 10

18 U.S.C. §207 16

28 U.S.C. §1254(1) 2

28 U.S.C. §2106 17

35 U.S.C. §102 12

35 U.S.C. §103 6

35 U.S.C. §251 ..... 3, 14

PAGE

35 U.S.C. §253 ..... 3, 4, 14
35 U.S.C. §288 14
37 C.F.R. §1.2 4
37 C.F.R. §1.133 ..... 4, 5
37 C.F.R. §1.176 5
37 C.F.R. §1.341(g) 5, 16

In The

SUPREME COURT OF THE UNITED STATES

October Term, 1971

No. 71-1081

KEARNEY & TRECKER CORPORATION,

Petitioner,

vs.

GIDDINGS & LEWIS, INC.,

Respondent

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

Respondent, Giddings & Lewis, Inc., opposes the Petition for Writ of Certiorari filed herein by Petitioner, Kearney & Trecker Corporation for the reasons set forth hereinbelow.

OPINIONS BELOW

The Petition for Writ of Certiorari correctly sets forth the relevant proceedings and opinions below, except insofar as it fails to point out that the Court of Appeals reversed the judgment and remanded the case to the district court to conduct such additional proceedings on the counterclaim as it deems appropriate in the light of the opinion.

JURISDICTION

The Petition correctly states that the jurisdiction of this Court is invoked under Title 28 United States Code, §1254(1).

QUESTIONS PRESENTED

Petitioner presents three questions which it asks this court to answer in the negative. The questions are more theoretical than real because the requested answers would not dispose of the issues in this case.

The first two questions are substantive and incorrectly assume (1) that the original patent had not been surrendered for the broadened reissue patent, and (2) that the patent right had not been abused by the Petitioner's wrongful procurement of the broadened reissues and improper enforcement activities. The third question is procedural and assumes the reviewing court has no right to consider the cumulative effect of corroborative documents improperly excluded by the trial court which corroborate but are not essential to the reviewing court's decision, the latter being predicated on other undisputed documentary, oral, and stipulated evidence admitted by the trial court on issues tried below.

The real question is whether this Court finds it important to review the determination of the Circuit Court of Appeals that (a) the unique pattern of improper conduct of which Petitioner was found guilty by both the trial court and the Court of Appeals results in Petitioner's patent being unenforceable, and (b) Petitioner's attempt to enforce that patent monopoly knowing it to have been tainted by that pattern of conduct exposes it to liability under Sec. 2 of the Sherman Act if the trial court finds respondent to have been injured thereby.

STATUTES AND REGULATIONS INVOLVED

The following statutes and regulations are involved in addition to those cited by the Petitioner:

35 U.S.C. §251. **Reissue of defective patents.**

Whenever any patent is, through error without any deceptive intention, deemed wholly or partly inoperative or invalid, by reason of a defective specification or drawing, or by reason of the patentee claiming more or less than he had a right to claim in the patent, the Commissioner shall, on the surrender of such patent and the payment of the fee required by law, reissue the patent for the invention disclosed in the original patent, and in accordance with a new and amended application, for the unexpired part of the term of the original patent. No new matter shall be introduced into the application for reissue.

The Commissioner may issue several reissued patents for distinct and separate parts of the thing patented, upon demand of the applicant, and upon payment of the required fee for a reissue for each of such reissued patents.

The provision of this title relating to applications for patent shall be applicable to applications for reissue of a patent, except that application for reissue may be made and sworn to by the assignee of the entire interest if the application does not seek to enlarge the scope of the claims of the original patent.

No reissued patent shall be granted enlarging the scope of the claims of the original patent unless applied for within two years from the grant of the original patent.

35 U.S.C. §253. **Disclaimer.**

Whenever, without any deceptive intention, a claim of a patent is invalid the remaining claims shall not thereby be rendered invalid. A patentee, whether of the whole or any sectional interest therein, may,

on payment of the fee required by law, make disclaimer of any complete claim, stating therein the extent of his interest in such patent. Such disclaimer shall be in writing and recorded in the Patent Office; and it shall thereafter be considered as part of the original patent to the extent of the interest possessed by the disclaimant and by those claiming under him.

In like manner any patentee or applicant may disclaim or dedicate to the public the entire term, or any terminal part of the term, of the patent granted or to be granted.

37 C.F.R. §1.2 (Patent Office Rule 2). **Business to be transacted in writing.**

All business with the Patent Office should be transacted in writing. The personal attendance of applicants or their attorneys or agents at the Patent Office is unnecessary. The action of the Patent Office will be based exclusively on the written record in the Office. No attention will be paid to any alleged oral promise, stipulation, or understanding in relation to which there is disagreement or doubt.

37 C.F.R. §1.133 (Patent Office Rule 133). **Interviews.**

(a) Interviews with examiners concerning applications and other matters pending before the Office must be had in the examiners' rooms at such times, within office hours, as the respective examiners may designate. Interviews will not be permitted at any other time or place without the authority of the Commissioner. Interviews for the discussion of the patentability of pending applications will not be had before the first official action thereon. Interviews should be arranged for in advance.

(b) In every instance where reconsideration is requested in view of an interview with an examiner, a complete written statement of the reasons presented at the interview as warranting favorable action must be filed by the applicant. An interview does not re-

move the necessity for response to Office actions as specified in rules 111, 135.

37 C.F.R. §1.176 (Patent Office Rule 176). **Examination of Reissue.**

An original claim, if re-presented in the reissue application, is subject to reexamination, and the entire application will be examined in the same manner as original applications, subject to the rules relating thereto, excepting that division will not be required. Applications for reissue will be acted on by the examiner in advance of other applications.

37 C.F.R. §1.341(g) (Patent Office Rule 341). **Registration of Attorneys and Agents.**

* * *

(g) *Former examiners.* No person who has served in the examining corps of the Patent Office will be registered after termination of his services; nor, if registered before such service, be reinstated, unless he undertakes (1) not to prosecute or aid in any manner in the prosecution of any application pending in any examining division in which he served, on the date he left said division; and (2) not to prepare or prosecute nor to assist in any manner in the preparation of prosecution of any application of another filed within two years after the date he left such division, and assigned to such division, without the specific authorization of the Commissioner. Associated and related classes in other divisions may be required to be included in the undertaking or designated classes may be excluded. In case application for registration or reinstatement is made after resignation from the Office, the applicant will not be registered, or reinstated, if he has prepared or prosecuted, or assisted in the preparation or prosecution of any such application as indicated in this paragraph.

STATEMENT OF THE CASE

No brief statement of the facts of this case does it justice, and the Petitioner's statement omits many of the facts which the Court of Appeals relied upon in ruling as it did. No inference that all the relevant facts before the court are presented in the Petitioner's statement of the case, or are limited to the words of the extensive pretrial fact stipulations (which were largely in the nature of admissions by the Petitioner) is justified.

Since the Court of Appeals did not find it useful or necessary to reach the contested infringement issues and the validity issues under 35 U.S.C. § 103, the fact that it did not disturb the district court findings is not an affirmation of them. The observation (App. 32a-33a) that "the resemblance between the machines supports the district court's finding of infringement of claims 19 and 20" does not reflect a legal test for infringement of the claims, nor did the Court of Appeals consider the validity of any claim so expanded in scope as to satisfy a "resemblance between the machines" infringement test.

The inaccuracy of Petitioner's reference to the lapse of "more than two years after commencement of the original actions" before the Respondent pleaded the anti-trust counterclaim and the amended defenses is not important, although, in fact, appreciably less than two years elapsed between initiation of the litigation on December 21, 1966, and the September 5, 1968 filing of the amended answer and counterclaim setting forth particulars of Petitioner's use of Beall. Much more importantly, six years elapsed after the Petitioner hired Beall before this fact emerged during Respondent's deposition of Petitioner's patent attorneys in the summer of 1968. It was more than two years after the litigation had commenced,

and only after Respondent had deposed former Primary Examiner Beall, by the time Petitioner permitted its trial attorneys to notify the Patent Office in January, 1969 (Stipulated Fact 121 I, R. 125-126) of some of the facts concerning Beall's participation on its behalf in the prosecution of eleven patent applications which had been in his division when he was its chief. Respondent's followup discovery concerning the use of Beall proceeded against resistance by the Petitioner on the grounds of attorney-client privilege and work product maintained until shortly before trial time, after the trial court's order of April 17, 1968 affirmed its earlier order that Petitioner produce the documents named in the Respondent's September, 1968 motion for production. On the eve of trial, which began May 19, 1969, the Petitioner first acknowledged that it would change its licensing practices and drop its attempts to enforce the patent claims added by the reissues.

As noted by the Court of Appeals, this dramatic narrowing of the traditional issues of validity and infringement was the consequence of revelations during pretrial discovery, but it did not occur until almost two and one-half years after the litigation had begun.

At trial Petitioner again objected to admission of documentary reports and advices to it from Mr. Beall on the grounds of attorney-client privilege. (R. 473, 574, 601-9)

GROUNDS FOR DENYING WRIT OF CERTIORARI

1. Petitioner Has Made No Showing of Any Special or Important Reason Why Review on Writ of Certiorari Should be Granted in This Case.

A reading of the unique set of circumstances upon which the Court of Appeals based its determinations makes it apparent that the real question presented by the Petition has extremely narrow application which can only be applied to a situation where:

(1) The patent in suit was originally granted only after extensive amendments of the claims and many off-the-record personal interviews with the subsequently hired Primary Examiner and his assistant Examiner, including some in which the domination of the application by the IBM patent to Morgan and a possible interference with it was discussed; (App. 35a and 37a-40a; Stipulated Facts 121 B through G and Stipulated Fact 122, R. 121-126)

(2) The scope of the originally granted patent monopoly was enlarged by two broadening reissues with the behind-the-scenes assistance of the attorney who, shortly before retirement and employment, was the same Primary Examiner in the Patent Office in charge of and directly involved in passing upon the original patent application; (App. 37a-40a and 45a and Stipulated Fact 121, R. 121)

(3) The retired Patent Examiner was employed while the original application was still pending and his services utilized at the specific direction of Petitioner's principal managing officer and principal patent attorney; (App. 57a-58a and Stipulated Facts 117-119; 121A-G)

(4) The patent in-suit was one of a group of related patents dominating an important line of commerce as to which the former Examiner's assistance was invoked and which had been before him while he was Primary Examiner; (App. 60a-61a and Stipulated Fact 121 I, R. 125-126)

(5) The employment of the former Examiner was kept under cover by the patentee from competitors having patent applications under examination by the same Patent Office examining group or in interference with some of the related applications; (App. 26a; DTX 140 and 146)

(6) The former assistant Examiner who succeeded the retired Primary Examiner in responsibility for the examination of the reissue applications, including the examination of those claims corresponding to the original claims, was influenced by the example of his former chief's employment by the patentee and expressed hopes for his own post-retirement employment by the patentee; (App. 38a-39a and Stipulated Fact 123, R. 127)

(7) The former subordinate Examiner was in fact improperly contacted by his former chief about the progress of the reissue examination and was showered with personal attentions by the patentee; (App. 38a-39a and Stipulated Fact 125, R. 127)

(8) The patentee resisted and thus delayed discovery by the defendant of the full history of the original and reissue patent prosecution; (App. 26a and 41a-42a and R. 41-64; 71-78; 78-82)

(9) The patentee waited until the eve of trial before dropping its charge of infringement of claims added by reissue after forcing the defendant to extend its expenses and spread its energies to prepare infringement defenses

on the broadened added claims; (App. 44a and Stipulated Fact 105, R. 116)

(10) The Petitioner occupied a dominant position in the relevant market, which position was augmented by the prosecution and enforcement of said twice-broadened reissue patent; (App. 60a-61a and Stipulated Facts 67 and 69, R. 104-105)

(11) The Petitioner purchased from IBM the basic patent in the relevant market under which the Respondent was licensed and reissued the same with the advice and assistance of the same retired patent Examiner for the declared purpose of further dominating the line of commerce by making anyone in the industry desiring to compete in that market come to the Petitioner as the owner of both patents. (App. 40a-43a and 61a and DTX 179; R. 819-20)

The foregoing is but a partial statement of the facts which moved the Seventh Circuit Court of Appeals to conclude the patent was unenforceable and to further conclude the Petitioner had both the intention and the potential of monopolizing the relevant market and would be liable for damages for violation of Section 2 of the Sherman Act if the trial court upon remand should find the Respondent to have been injured by such predatory conduct. Petitioner's abuse of the patent privilege by conduct which shockingly violates the most elemental precepts of conflict of interest in an effort to broaden and extend the granted patent monopoly is an abuse far more serious than other abuses or misuses which have been held to deprive the wrongdoer of protection under the patent statutes and to expose him to liability for violation of the antitrust laws.

Any public interest and general importance justifying this Court's review is absent unless two assumptions are made. First, that there is widespread conduct in utilizing the services of an attorney who, as a United States patent Examiner having acted as a guardian of the public interest in passing a patent application to issue, within a short time thereafter advises and assists in securing broader reissues of the same patent. Second, that persons engaging in such conflicts of interest or tempting public employees to do so deserve assurance that they will be deprived only of advantages proven to have come to them as a direct consequence of such conduct without jeopardy to their right to fully assert the patent privilege.

We respectfully submit the first assumption, fortunately, is not a true reflection of the ethical standards of former Patent Office employees or their employers. As to the second, there is no need whatever for comforting anyone who might engage in conduct which undermines public confidence in the integrity of the patent process itself. This Court has never suggested that any abuse by litigants of the judicial process, or of the patent granting process, can be tolerated, much less rewarded.

2. There Is No Conflict to be Resolved.

In applying the rule of *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965) to the facts of this case, the Court of Appeals for the Seventh Circuit is not in conflict with courts of appeal which have declined to apply the *Walker* rule to other cases. There is no conflict whatever. There are only different cases. The Petitioner apparently concedes that the *Walker* case is good law.

The principle of the *Walker* opinion is that the conscious enforcement of a patent monopoly known by the patentee

to be illegal or defective becomes an illegal monopoly under Sec. 2 of the Sherman Act when used to monopolize a relevant line of commerce. That principle was followed by the Court of Appeals in this case. *Walker* makes it clear that the patentee's lack of *bona fides*, rather than statutory patent invalidity, is the material consideration. The Petitioner would have it the other way around.

In *Walker* the patentee, Food Machinery, had maintained suit on the patent until defendant brought to light that plaintiff had concealed evidence of its loss of right to a patent under 35 U.S.C. § 102(b) by reason of public use and sale of the subsequently patented invention more than a year before filing a patent application. Whether the invention was otherwise patentable was immaterial. Whether the Patent Office would have issued the patent any earlier if the application had been filed within the year was immaterial. Whether Food Machinery dropped the infringement action after the fraud was exposed was immaterial. What was material was Food Machinery's conscious assertion of a patent with a known infirmity. Petitioner's conduct in this case, involving conscious assertion of a reissue patent procured by tampering with the patent granting process, is certainly no less material than that of Food Machinery in *Walker*.

Petitioner has ignored both the facts and the law in arguing that there was no causal connection between its conduct and the patent which it improperly obtained. The patent and the wrongful conduct which accompanied its procurement are inseparable. Fine distinctions urged to separate a claim from its patent or an act from its consequences are not relevant in the face of wrongful conduct which threatens the integrity of the judicial or patent granting process upon which the public must rely. *Hazel Atlas Co.*

v. *Hartford Empire Co.*, 322 U.S. 238 (1944); *Keystone Driller Co.* v. *General Excavator Co.*, 290 U.S. 240 (1933).

"Materiality" has no useful application in measuring such a basic abuse as the conflict of interest here involved but that does not make the conflict "immaterial." The Petitioner here would endorse what the Court in *Walker* sought to end — the kind of self-justification which makes fraud and innocence equal legal quantities. Certainly there is no occasion to argue a technical meaning of the word "fraud" as if it were a term of art in the patent statutes (where it does not appear at all). The Court of Appeals decision gave ample consideration to any distinctions as to the types of fraud reached by the Supreme Court in *Walker* and concluded:

> "We think the phrase 'fraud or inequitable conduct' encompasses the kind of conduct disclosed by this record. A violation of the proscriptions against conflict of interest to obtain a broadening reissue involves the same threat to public interest as actual fraud practiced on the Patent Office. *Cf., United States* v. *Mississippi Valley Co.*, 364 U.S. 520" (App. 53a)

3. No New Question of Federal Law Is Involved in the Application of Existing Law to the Facts of This Case.

In part 2 of its brief, the Petitioner argues that points of first impression are raised by the decision below. We submit that such novelty as may exist resides only in the specific facts of the case. Moreover, if others are contemplating indulgence of the type of conduct here condemned by the Court of Appeals, denial of the Petition will better serve the public interest than granting it.

Primarily, the Petitioner charges the Court of Appeals with error in not limiting the application of *Walker* to

concealment of a statutory invalidity defense. This is no more than a wishful argument that willful abuse of the patenting process through a concealed and serious conflict of interest in procuring a broadening reissue of the patent is necessarily a lesser, more "technical" offense to public policy than the willful filing of a patent application more than the statutory year after allowing the public to gain knowledge of the invention. The Petitioner's distinctions are contrary to the public interest served by *Walker* and assume a predisposition to deal generously with litigants who compromise or subvert the machinery of justice, including the process of the Patent Office.

Petitioner, unlike the patentee in *Walker*, continued its attempt to enforce its patent monopoly after the fraudulent conduct was called to its attention. In this respect, it stands in a worse light, not a better light, than the patentee in *Walker*.

The Petitioner did not effectively remove its disqualification under 35 U.S.C. § 288 to maintain an action against the Respondent. While it argues that no determination of invalidity was previously made; the significant point is that the reissue statute (35 U.S.C. § 251) and the disclaimer statute (35 U.S.C. § 253) were not available to it. The benefits of these statutes are by their terms available only to those who are "without any deceptive intention." Moreover, the Petitioner did not risk submitting the twice reissued patent to the jurisdiction of the Patent Office either to make a disclaimer of any or all improperly procured claims or to reissue the patent without them. The patentee who conceals the evidence of the infirmity and avoids the legal remedies of proper reissue or disclaimer is in no position to argue that it is "without deceptive intention" under 35 U.S.C. § 288.

It is not a matter of first impression that a claim brought forward from the original patent does not survive the reissue patent in which the attempt to obtain the added claims is tainted with fraud. *Staude* v. *Bendix Products Corp.*, 26 F.Supp. 901 (N.D. Ind. 1939), *aff'd on other grounds*, 110 F.2d 484 (7th Cir. 1940). Further, it is not a matter of first impression that a patent is void in its entirety because of deceptive intent in not disclosing a claim with an infirmity. *Strong* v. *General Electric Co.*, 305 F.Supp. 1084, 1088 (N.D. Ga. 1969), *aff'd per curiam*, 434 F.2d 1042 (#2) (5th Cir. 1970), *cert. den.* 403 U.S. 906 (1971), and *Intermountain Research & Engineering Co., Inc.* v. *Hercules, Inc.*, ... F.Supp. ....., 171 USPQ 577, 631 (C.D. Cal. 1971). In the final analysis, the extent of inequitable conduct condemned as "unconscionable" or "fraudulent" is to be distinguished from "merely" inequitable conduct on the facts, just as violations of major felony statutes are distinguished by their facts from technical infractions of misdemeanor statutes. Whether the patent is effectively invalidated by unenforceability for its full term or whether it is temporarily unenforceable subject to purging of the effects of the conduct offending public policy depends upon the gravity of the facts. If a grave abuse occurred in the very procurement of the patent, as was the case here, there is no possible basis for subsequent purge, and an exercise in semantics by which such a patent is indicated as unenforceable but emphasized as not invalid only fosters its effectiveness as a scarecrow in the relevant market which the patent owner has attempted to monopolize.

Petitioner's argument that a most important consequence in declaring a patent invalid as well as unenforceable "is that the patent owner can do absolutely nothing

to rehabilitate his patent" (Petitioner's Brief, p. 17), is a reminder that such a deterrent is necessary if the public is to be spared "rehabilitation" by an unrepentant transgressor. Purge without pain by relinquishing at the eleventh hour the broader claims added by reissue did not so rehabilitate the patent as to permit the patentee to gain its end of monopolizing the relevant market by a broad construction of the narrower claims in the same patent. The wrongs are not only that the petitioner forced the respondent before the time of trial to expend its energies and efforts to defend on the broader claims and forced other parties to take licenses under them, but that it had ever attempted to procure the reissue patent in clear violation of basic conflict of interest principles as well as criminal statutes, and that it ever attempted to enforce a patent it had so procured.

Section 2 of the Petitioner's brief concludes with its absurdly strained reading of 18 U.S.C. § 207(a) under which the former government officer would not be in violation of the statute if his actions as an agent or attorney for his new employer "aid or assist" that employer. The Court of Appeals' analysis (App. 46a-48a) needs no amplification. Even the trial court found that Beall acted as Petitioner's agent or attorney, but viewed the offense as merely one of unlicensed practice by Beall (Patent Office Rule 341(g)). The Petitioner itself resisted the production of Beall's reports to it on the ground of attorney-client privilege. Petitioner's argument that the Court of Appeals' ruling on the sorry state of ethics reflected by the facts "also places former governmental employees at a serious disadvantage in securing post-governmental employment" is unjust to former government employees and their employers.

4. It is Within the Province of a Reviewing Court to Consider Documentary Evidence and Dispose of an Appeal on the Merits.

Petitioner does not assert that the Court of Appeals erred in overruling the trial court's exclusion of certain documents. Instead, it bases its objections upon the Court of Appeals' consideration of such documentary evidence, after overruling the trial court in its determination of the cause.*

The question presented by Petitioner merely states the alternatives. Since the approach taken by the Court of Appeals is an available and proper one under the facts presented, review is unnecessary.

It is established law that material evidence consisting mainly of documents and uncontroverted oral testimony may be considered independently by the reviewing court; see for example, *B. F. Goodrich Co.* v. *Rubber Latex Products, Inc.*, 400 F.2d 401 (6th Cir. 1968); *Hart* v. *Gallis*, 275 F.2d 297 (7th Cir. 1960); *Fargo Glass & Paint Co.* v. *Globe American Corp.*, 201 F.2d 534 (7th Cir. 1953).

The erroneously excluded documents in the trial court comprise only a part of the record upon which the reviewing court reached its conclusion that Petitioner had violated the anti-trust laws, an issue before the trial court. In the cases cited by Petitioner there was either no presentation of the issue below, or the court did not rule on

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* The pertinent statute 28 U.S.C. §2106 provides that "the Supreme Court or any other court of appellate jurisdiction may affirm, modify, vacate, set aside or reverse any judgment, decree or order of court lawfully brought before it for review, and may remand the cause and direct the entry of such appropriate judgment, decree, or order, or require such further proceedings to be had as may be just under the circumstances."

the issue due to its ruling on the evidence that was subsequently overturned in the appellate court. Under those circumstances, the cause was remanded to the trial court to give the opposite party an opportunity to present a defense. No such circumstances exisit here.

In *Collins* v. *Hoffman*, 62 Wash. 278 (1911), relied upon by Petitioner, the document excluded on the basis of a claim of privilege was the only evidence the plaintiff had to establish its fraud allegations and no testimony was permitted on the subject in the trial court. The court of appeals on a later appeal, in *Collins* v. *Hoffman*, 74 Wash. 264 (1913), held that the documentary evidence which was in the record of the earlier appeal merely as identifications was *prima facie* establishment of the sufficiency of the evidence to support a judgment for the appellant. In the present case the documents excluded were cumulative and corroborative of other admitted evidence on the issues decided. Considering this with the aforementioned documentary rule of courts on review, any further review is neither necessary nor proper.

Contrary to any assertion by Petitioner that the Court of Appeals relied only on the excluded documents to make critical findings in support of the conclusions that plaintiff violated the anti-trust laws, it is noted that the reviewing court stated:

> "Since we find the same objection to the procurement of a patent by violation of conflict of interest principles as by fraud, under our appraisal of the exclusionary power of the Brainard reissue claims, that holding persuades us that plaintiff has violated Section 2 of the Sherman Act.
>
> This conclusion is consistent with other evidence in the record upon which defendant places great stress.

> Thus, the provisions in plaintiff's licenses prohibiting separate manufacture or sale of the patented automatic tool changer and requiring licensees to pay royalties on an entire machine tool even though the patented unit represented only about 10% of its cost are probative of an intent to exclude competition and to enhance prices. . . . The basic factors on which we do rely do not involve the resolution of any disputed questions of fact. We have not distributed [sic] any of the findings made by the district court and we have no doubt that if he had considered the reasoning of *Walker* applicable to plaintiff's employment of Beall, as we have held, he would also have found a violation of the Sherman Act." (App. 62a)

There is no question that courts of appeal have the right to interpret for themselves documentary and testimonial evidence and are equally as competent as the trial court to do so. See *Deep Welding, Inc.* v. *Sciaky Bros., Inc.*, 417 F.2d 1227 (7th Cir. 1969) and the cases cited therein.

Finally, the decision of the Court of Appeals not only reversed the judgment of the trial court but remanded the case to the district court "to conduct such additional proceedings on the counterclaim as it deems appropriate in the light of this opinion." Petitioner has not been deprived of its day in court.

CONCLUSION

For the reasons presented above, the Petition for a Writ of Certiorari should be denied.

Respectfully submitted,

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No. 71-1081

In the

Supreme Court of the United States

OCTOBER TERM, 1971

KEARNEY & TRECKER CORPORATION,
Petitioner,

vs.

GIDDINGS & LEWIS, INC.,
Respondent.

REPLY BRIEF OF PETITIONER IN SUPPORT OF THE PETITION FOR WRIT OF CERTIORARI

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As to the first question presented, Respondent (p. 11) answers by simply denying that any conflict in principle exists between the decision below and decisions of other courts of appeal as to the doctrine of *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965). Respondent (pp. 8-10) first catalogues the circumstances alleged to have formed the basis of the Court of Appeals determination.* Then, Respondent (pp. 11-13) argues unclean hands and relies upon *Hazel-Atlas Glass Co.* v. *Hartford-Empire Co.*, 322 U.S. 238 (1944) and *Keystone Driller Co.* v. *Excavator Co.*, 290 U.S. 240 (1933), each of which dealt with unclean hands

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*The majority of the enumerated circumstances are not mentioned in the opinion.

as a defense to a patent infringement action. In so arguing, Respondent equates an equitable defense with a showing required for affirmative relief for violation of Section 2 of the Sherman Act. But for a Sherman Act violation there must be materiality, the wrongful conduct must have been instrumental in procuring the patent.

In its Petition, Petitioner has pointed out the care with which this court limited its holding in *Walker* and the recognition by other Courts of Appeals of the limited nature of that holding. There can be no question that under *Walker* the issuance of the patent must have been obtained or procured by the improper conduct. That necessary element for violation of Section 2 of the Sherman Act is absent in this case, as the undisturbed finding of lack of materiality made by the trial court demonstrates.

As to the third question presented, the Respondent (pp. 17-19) restates the question to be whether a reviewing court can consider documentary evidence and dispose of an appeal on its merits. Four decisions are cited to show that a reviewing court can do so. In each of those decisions, the reviewing court was considering matters in evidence and considered by the trial court. In each instance, the opposing party had an opportunity to offer counter evidence. The error here urged is in making a determination of liability by consideration of documents excluded from evidence, not considered by the trial court, and as to which Petitioner had no opportunity to offer evidence to rebut or explain.

The Respondent (p. 18) would minimize the significance of the documents as to which Petitioner has had no opportunity to respond as being merely "cumulative and corroborative" of other evidence. They were more than that and were referred to repeatedly by the Court of Appeals (App. 41a, 42a, 54a).

The subsequent decision in the litigation of *Collins v. Hoffman*, reported at 74 Wash. 264; 133 Pac. 450 (1913), referred to by Respondent (p. 18) emphasizes the proper procedure for handling of documents found on review to have been erroneously excluded from evidence. The party against whom the documents were offered is to be given the opportunity on remand to explain or rebut such documents. Whether he is subsequently successful in explaining or rebutting the documents is not relevant; he was given the opportunity to try. Petitioner under the decision below has been denied that opportunity.

Respondent (p. 19) refers to the fact that the Court of Appeals remanded the case to the District Court for additional proceedings. Those proceedings were to determine whether Respondent has been injured by the Sherman Act violation found by the Court of Appeals (App. 63a-64a). They will afford Petitioner no opportunity to rebut or explain on matters already determined by the Court of Appeals.

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